

ARL

Matthews
INTERNATIONAL

A Tradition of Quality Since 1850



06021800



ANNUAL REPORT 2005



Matthews International Corporation

has manufacturing and marketing

facilities throughout the United States,

Canada, Mexico, Australia and Europe.

COMPANY PROFILE ■ FINANCIAL HIGHLIGHTS

MATTHEWS INTERNATIONAL CORPORATION, headquartered in Pittsburgh, Pennsylvania, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, marking products, and merchandising solutions. The Company's products and services include cast bronze memorials and other memorialization products; caskets; cast and etched architectural products; cremation equipment and cremation-related products; mausoleums; printing plates, pre-press services and imaging services for the corrugated and primary packaging industries; marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers; and merchandising display systems and marketing and design services.

Detailed financial information relating to business segments and to domestic and international operations is presented in Note 15 (Segment Information) to the Consolidated Financial Statements.

FINANCIAL HIGHLIGHTS

Dollar amounts in thousands, except share data

	2005	2004	2003 ¹
OPERATING RESULTS			
Sales	\$639,822	\$508,801	\$458,865
Operating profit	101,287	97,794	80,084
Income before income taxes	95,930	91,833	73,354
Net income	59,824	56,195	44,893
PER COMMON SHARE			
Diluted earnings per share	\$1.84	\$1.72	\$1.39
Dividends	.185	.165	.123
FINANCIAL POSITION			
Total assets	\$662,067	\$530,542	\$440,182
Long-term debt, noncurrent	118,952	54,389	57,023
Shareholders' equity	334,361	312,250	256,228

¹Fiscal 2003 included a pre-tax charge of approximately \$1,000 from special items which consisted of a pre-tax gain of \$2,600 on the sale of a facility and a goodwill impairment charge of \$3,600.

Message To Our Shareholders

One of the measures of a successful company is its performance through change. During fiscal 2005, we saw changes take place in several of our businesses, some of which we initiated, some which were not in our control. Through these changes, Matthews completed a challenging year within our earnings target as a result of the continued fine efforts of our employees.

OPERATIONAL HIGHLIGHTS

Beginning in 2004, we initiated a project in our casket business to establish a new manufacturing facility in Mexico. This was a significant undertaking that we considered to be a necessary investment to ensure our business remained cost effective in a very competitive casket market. Through September 30, 2005, costs incurred for the project totaled approximately \$12 million, of which \$3.7 million was charged against income in fiscal 2005. At September 30, 2005, this project was substantially complete and the operation is currently ramping up production of quality caskets.

Later in fiscal 2005, we completed a significant acquisition in our casket segment with the purchase of Milso Industries for \$95 million. Milso is also a manufacturer and marketer of caskets, with annual sales of approximately \$85 million in the year preceding our acquisition. As we work through the integration of this new operation with Matthews, we expect to achieve operational synergies with added manufacturing volume and distribution capabilities.

For our Bronze segment, metal costs continued to rise significantly during fiscal 2005. However, as a result of its recent productivity initiatives and the continued support of our customers, the segment was able to post another year of improved operating results. Management of this operation has a demonstrated track record of successfully addressing changes in its business.

Two of our acquisitions in late fiscal 2004 experienced significant changes as well. In addition to the integration with a public company, both The Cloverleaf Group and The InTouch Group each dealt with business challenges during the year. For Cloverleaf, a consolidation of facilities was

initiated in fiscal 2005. This consolidation, which has certainly been a challenge to its employees and business, is intended to improve the productivity of its merchandising solutions operations and is expected to be completed by March 2006. The InTouch Group experienced a difficult market climate in the United Kingdom during fiscal 2005. Management of both of these operations have implemented cost structure changes designed to improve operating results in fiscal 2006.

The acquisition of Holjeron Corporation in late fiscal 2004 was a catalyst for the growth of the Marking Products segment in fiscal 2005. The segment has been expanding its product offerings and continues to work on new product development toward its "Move It, Mark It, Track It" business strategy.

Our North American Graphics business continues to work hard to address the challenges of a highly competitive market. The corrugated packaging market that our operations have traditionally served remains under extreme pricing pressure, which has impacted our sales and margins. We are making investments to transition our business to better serve the primary packaging markets, which is where we have demonstrated success in Europe. The transition process will take some time, but I am confident that we can make progress.

Fiscal 2005 was the year Matthews was required to attain compliance with the new internal control standards under the Sarbanes-Oxley Act. I am pleased to report that the implementation of these requirements confirmed that our Company maintains a very good system of internal controls and continued adherence remains a priority for our management team going forward.

On September 1, 2005, we created the Office of the Chairman to include me as Chairman and Chief Executive Officer, David J. DeCarlo as Vice Chairman, and Joseph C. Bartolacci as President and Chief Operating Officer. The Office of the Chairman is charged with managing the day-to-day operations of the Company and to integrate and improve the performance of existing operations. More importantly, I believe this structure will allow us to plan and lay the groundwork for the future leadership and further growth of the Company.

FISCAL 2005 FINANCIAL HIGHLIGHTS

Some of the financial accomplishments achieved by our Company in fiscal 2005 included the following:

- Earnings per share increased to \$1.84 in fiscal 2005, compared to \$1.72 for fiscal 2004. Our average annual increase in earnings per share over the last ten years has been over 15%.
- Consolidated revenues grew to \$639.8 million in fiscal 2005, representing an increase of 25.8% over fiscal 2004. The significant growth resulted from our acquisitions of The Cloverleaf Group, The InTouch Group and Holjeron in the fourth quarter of fiscal 2004 and the acquisition of Milso Industries in July 2005.
- For the quarter ended September 30, 2005, the Board of Directors increased the Company's quarterly cash dividend by 11.1% to \$0.05 per share. This was Matthews' eleventh dividend increase since our initial public offering in July 1994.
- The closing price of our common stock on September 30, 2005 was \$37.80 per share. For the ten years ended September 30, 2005, Matthews' stock value has increased an average of approximately 23% per year.

POSITION FOR THE FUTURE

Looking ahead, I am confident that our recent investments have established a solid foundation for the future growth of our Company. We will continue to face challenges in the markets that we serve, but I believe with those challenges will come opportunities.

It is my firm belief that our Company has a responsibility to serve three constituencies: employees, customers and



Office of the Chairman (l-r): David J. DeCarlo, Vice Chairman; David M. Kelly, Chairman of the Board and Chief Executive Officer; Joseph C. Bartolacci, President and Chief Operating Officer.

shareholders. We are extremely fortunate to have hard-working, dedicated employees in each of our businesses that are driven to succeed. We will continue to work hard to earn the loyalty of our customers and to meet their expectations for quality products and services. Together, employee and customer satisfaction will generate continued shareholder return.

As I have stated many times, I am sincerely grateful to serve in this great organization with such fine employees and I look forward to your continued support in 2006.

David M. Kelly
Chairman of the Board and
Chief Executive Officer

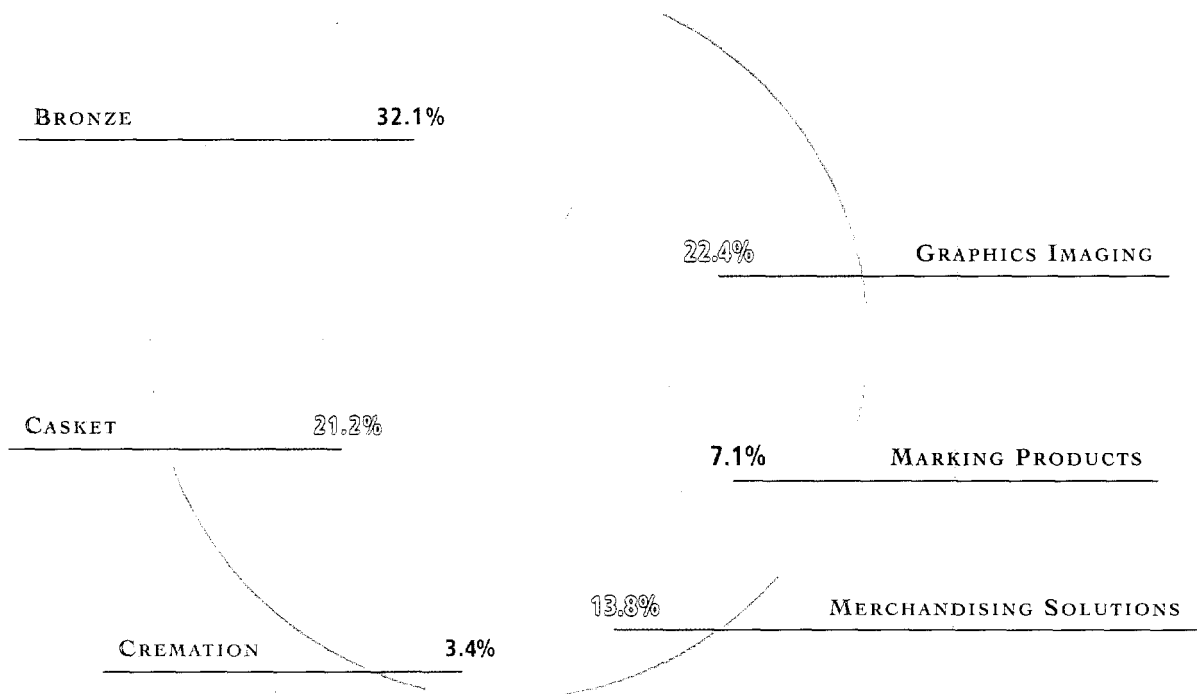
We will continue to work hard to earn the loyalty of our customers and to meet their expectations for quality products and services.

2005

FISCAL 2005 ACHIEVEMENTS AT A GLANCE

- Earnings per share increased to \$1.84 in fiscal 2005, compared to \$1.72 for fiscal 2004. The Company's average annual increase in earnings per share has exceeded 15% over the last ten years.
- Consolidated revenues grew to \$639.8 million in fiscal 2005, an increase of 25.8% over fiscal 2004. The significant growth resulted from the acquisitions of The Cloverleaf Group, The InTouch Group and Holjeron in the fourth quarter of fiscal 2004 and the acquisition of Milso Industries in July 2005.
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- The closing price of our common stock on September 30, 2005 was \$37.80 per share. Matthews' stock value has increased an average of approximately 23% per year for the ten years ended September 30, 2005.

PERCENTAGE OF COMPANY'S CONSOLIDATED SALES IN FISCAL 2005



■ ■ ■ MEMORIALIZATION SEGMENTS

■ ■ ■ BRAND SOLUTIONS SEGMENTS

MEMORIALIZATION

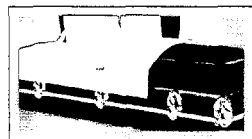


The three segments of the MEMORIALIZATION GROUP

of Matthews International are:



☒ **BRONZE**



☐ **CASKET**



☐ **CREMATION**

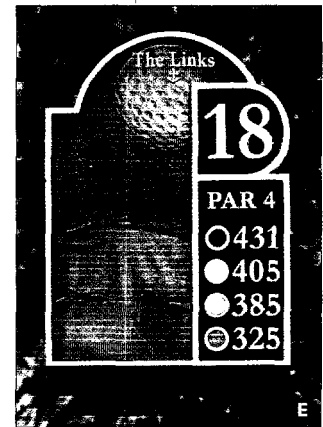
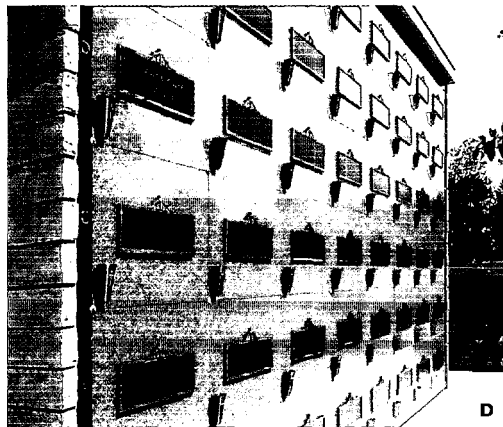
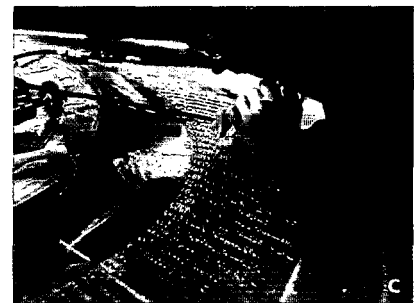
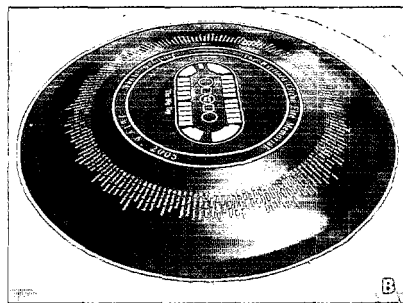
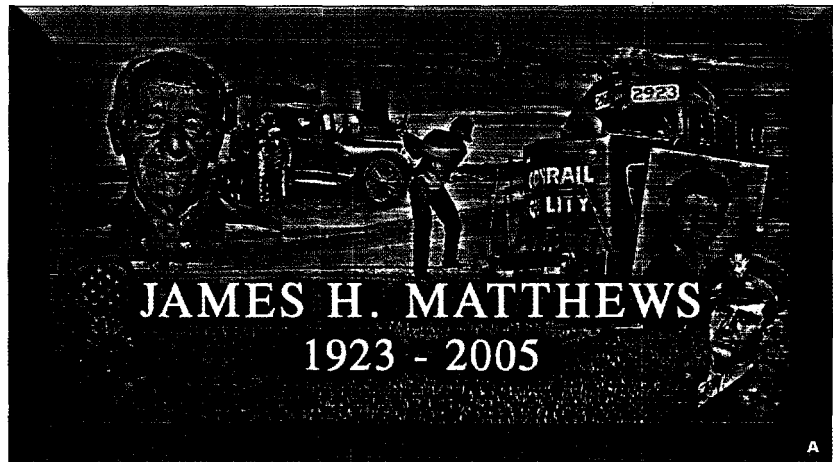


These segments' products include
cast bronze memorials and other
memorialization products; caskets;
cast and etched architectural products;
cremation equipment and
cremation-related products;
and mausoleums.

The Bronze segment

manufactures and markets products in the United States, Europe, Canada and Australia used primarily in the cemetery and funeral home industries. The segment's principal products include cast bronze memorials and other memorialization products used mainly in cemeteries. Memorial products include flush bronze memorials, flower vases, crypt plates and letters, cameo portraits, cremation urns, niche units, cemetery features and statues, community and family mausoleums, and granite monuments. In addition, the segment manufactures and markets cast bronze and aluminum architectural products used to identify or commemorate people, places and events.

- A The new *Lasting Memories* memorial design offers families the ability to have finely-detailed personal images cast on their memorials.
- B A memorial honoring the 168 people killed in the 1944 Hartford Circus Fire.
- C A craftsman tools the letters of the eight-foot diameter Circus Fire memorial, cast by the Bronze segment this year.
- D A cemetery where the Bronze segment's *Now & Forever* crypt memorialization system is installed.
- E The Bronze segment created this tee marker using its new patented *ImageCast* process.
- F Gibraltar Mausoleum Construction Company built this chapel mausoleum at Woodlawn Memorial Park in Greenville, South Carolina.



CASKET

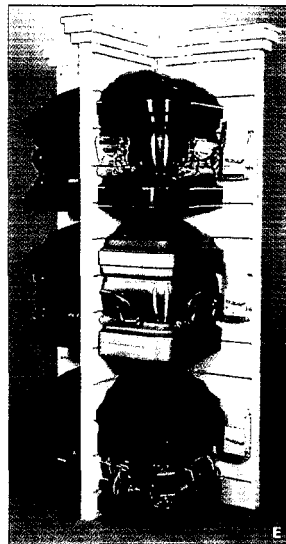
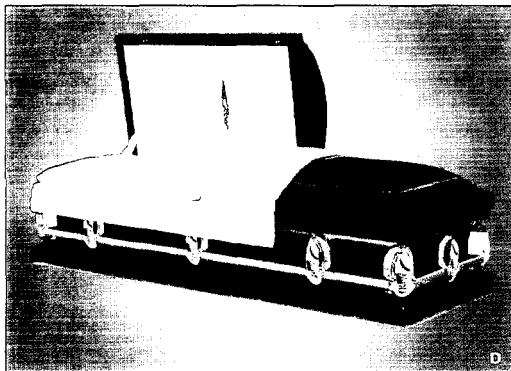
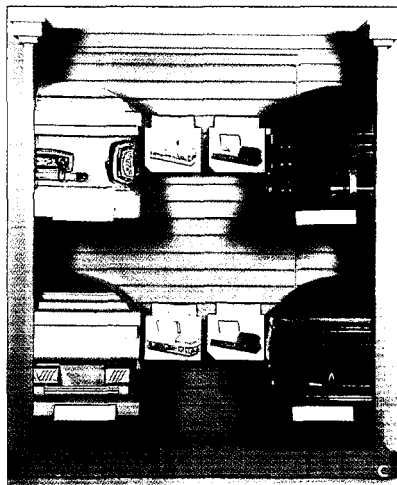


The Casket segment is a leading manufacturer of caskets in the United States. The segment produces a wide variety of wood and metal caskets. It is also a leader in providing assortment planning and merchandising and display products for funeral service businesses. These products assist funeral service professionals in providing value and satisfaction to their client families.

A A natural complement to the York Merchandising System®, The Milso Renaissance Center® is a dynamic, flexible display center designed to help families easily understand the value of products at each price point.

B New to both the York Merchandising System® and Milso Renaissance Center® retailing systems, freestanding X-style (photos B and E) and H-style (photo C) display fixtures maximize a funeral home's product offerings in a small amount of floor space.

D The new 20-gauge steel *With Honor* caskets provide an attractive yet inexpensive tribute to those who served.



CREMATION

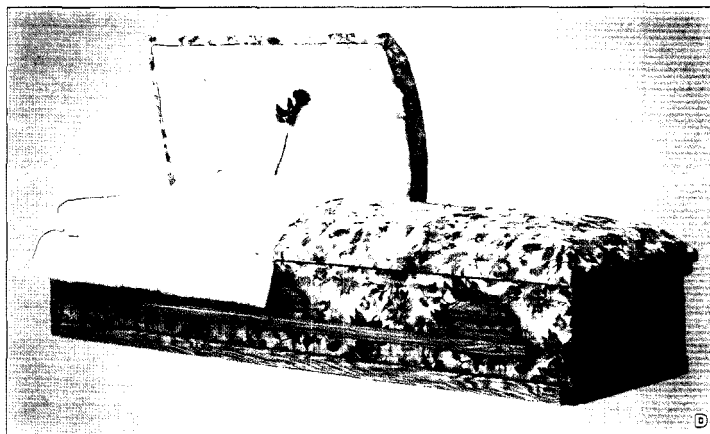
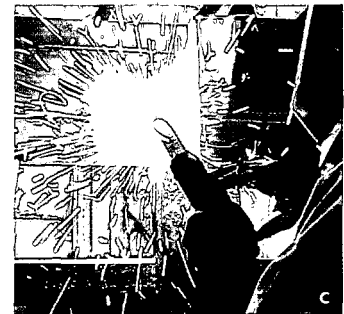
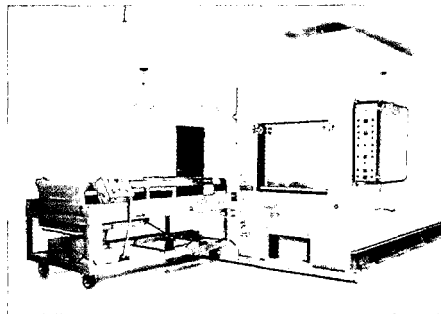
The Cremation segment is the leading designer and manufacturer of cremation equipment and cremation-related products in North America. Cremation equipment and products are sold primarily to cemeteries, crematories and mortuary facilities within North America, Asia, Australia and Europe. The segment also manufactures cremation caskets, which are manufactured from particleboard and corrugated materials covered with cloth, or paper veneer which gives the appearance of wood.

A Faithful Forever™ pet loss and care information web site with e-commerce for memorial products.

B Power Pak II cremation system with "auto-loader," casket loading unit.

C Matthews manufactures and repairs a wide range of cremation equipment and has set industry standards for safety, performance and quality.

D Lenoir cloth covered cremation casket with keepsake rose.



BRAND SOLUTIONS



The three segments of the **BRAND SOLUTIONS GROUP**

of Matthews International are:

■ GRAPHICS IMAGING

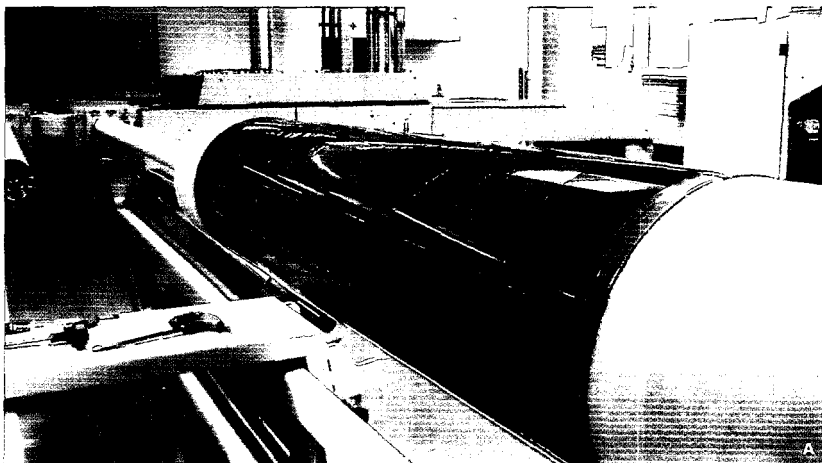
■ MARKING PRODUCTS

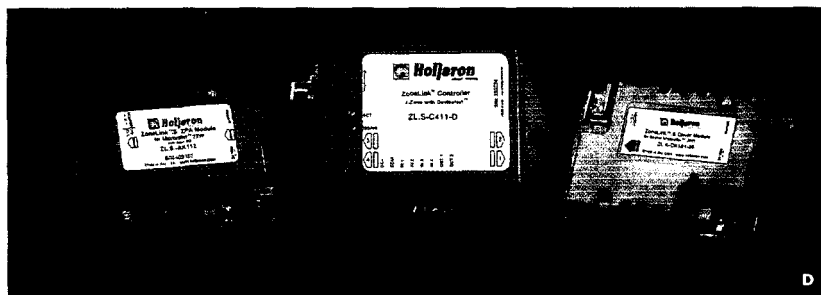
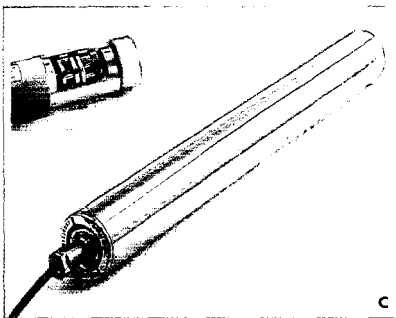
■ MERCHANDISING SOLUTIONS

These segments' products and services include printing plates, pre-press services and imaging services for the corrugated and primary packaging industries; marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers; and merchandising display systems and marketing and design services.

The Graphics Imaging segment provides pre-press, printing plates, and creative design services to the corrugated and primary packaging industries. The segment's principal products and services include pre-press graphics services, printing plates, print process assistance, print production management, digital asset and content management and package design. These products and services are used by packaging manufacturers and consumer products companies to develop and print packaging graphics that identify and help sell the product.

- A** The latest technology in packaging graphics machinery combines the flexibility, speed, and cost performance of flexographic printing with the precision and reliability of gravure.
- B** Private Label Offset folding cartons for Riviana Foods. Matthews produced color separations during the 2004-2005 FDA's Trans Fat packaging mandate.
- C** Bouquet of mylar balloons for Pioneer Balloon Company printed flexographically on metallized nylon substrate.
- D** Reproflex, one of the European operations of Matthews International, supplies its customers with printing forms for flexographic printing, gold and coating plates for offset printing, large-format digital printing, and a comprehensive range of prepress services.
- E** Flexographic polymer bag for Luigino's, producers of Michelina's and Budget Gourmet brands, a leading world packer of frozen entrée items.





The Marking Products

segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products used by customers to identify, track and convey various consumer and industrial products, components and packaging containers. Marking technologies include contact and ink-jet printing using a wide range of specialty inks, as well as indenting and etching processes. Marking solutions can be a stand-alone operation or integrated directly into the manufacturing process at high speeds with extreme accuracy.

A Jet-A-Mark® Drop-on-Demand ink-jet printers are reliable and durable for harsh industrial applications like those found in the metal industry.

B Matthews often specializes in creating custom inks for even the most challenging of marking applications.

C Marking Products' newest addition features Microroller® brand, motor driven rollers. This smart solution provides more innovative control for conveying solutions throughout the material handling industry.

D ZoneLink™ controls lie at the heart of Marking Products' material handling solutions. These controls provide an intelligent method for linking adjacent zones throughout a conveyor system, while enabling enhanced data communication that drives the line with a higher level of operating efficiency.

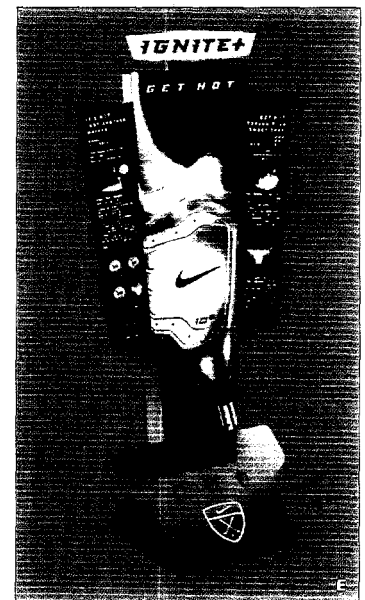
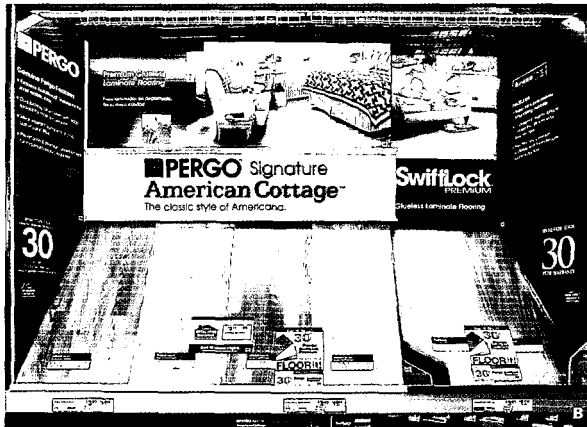
E Matthews helps industry in many facets of production by simplifying product identification. One example is the Matthews' AXIJET marking system, designed as a solution for marking stationary products, especially for printing large logos or multi-line messages.

MERCHANDISING SOLUTIONS

The Merchandising Solutions segment, which represents Matthews' newest segment as a result of its acquisition of The Cloverleaf Group in July 2004, is an industry leader in providing value-added comprehensive merchandising solutions to consumer product marketers and retailers in industries such as electronics, technology, entertainment, food and beverage, apparel, footwear, home improvement, petroleum, appliances and flooring.



- A The Merchandising Solutions segment worked closely with Lucy Activewear to develop the next generation of the store's design, bringing Lucy's unique customer offer to life.
- B The Diamond Display merchandising system permits sales associates to easily guide a consumer through the product lines and assist them in making informed decisions regarding which Pergo products would best suit their flooring needs.
- C Goodyear Fortera Display was created to support the launch of a new tire.
- D The Cloverleaf Group worked with Color Savvy to design and develop the new "color helper" device which is used by professionals or DIY-ers to determine what colors go together well.
- E Nike Ignite Golf Display. Cloverleaf was awarded the Gold at the Chicago Point of Purchase Show September 14, 2005.

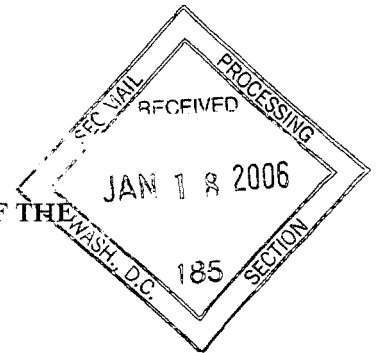


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2005
Commission File Number 0-9115



MATTHEWS INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

COMMONWEALTH OF PENNSYLVANIA

(State or other jurisdiction of
incorporation or organization)

25-0644320

(I.R.S. Employer
Identification No.)

TWO NORTHSORE CENTER, PITTSBURGH, PA

(Address of principal executive offices)

15212-5851

(Zip Code)

Registrant's telephone number, including area code

(412) 442-8200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Class A Common Stock, \$1.00 par value

**Name of each exchange
on which registered**

NASDAQ National Market System

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405a of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the Class A Common Stock outstanding and held by non-affiliates of the registrant, based upon the closing sale price of the Class A Common Stock on the NASDAQ National Market System on March 31, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.0 billion.

As of November 30, 2005, shares of common stock outstanding were: Class A Common Stock 32,041,293 shares

Documents incorporated by reference: Specified portions of the Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

The index to exhibits is on pages 70-72.

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

Any forward-looking statements contained in this Annual Report on Form 10-K (specifically those contained in Item 1, "Business", Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations") are included in this report pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from management's expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. In addition, although the Company does not have any customers that would be considered significant to consolidated sales, the potential loss of one or more of the Company's larger customers could be considered a risk factor.

ITEM 1. BUSINESS.

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, merchandising solutions, and marking products. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer in the United States and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides printing plates, pre-press services and imaging services for the corrugated and primary packaging industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

At November 30, 2005, the Company and its majority-owned subsidiaries had approximately 4,000 employees. The Company's principal executive offices are located at Two NorthShore Center, Pittsburgh, Pennsylvania 15212 and its telephone number is (412) 442-8200.

The following table sets forth reported sales and operating profit for the Company's business segments for the past three fiscal years. Detailed financial information relating to business segments and to domestic and international operations is presented in Note 15 (Segment Information) to the Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Years Ended September 30,

	2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)						
Sales to unaffiliated customers:						
<u>Memorialization:</u>						
Bronze	\$205,675	32.1%	\$197,377	38.8%	\$186,950	40.8%
Casket	135,512	21.2	116,588	22.9	120,398	26.2
Cremation	21,497	3.4	22,476	4.4	20,189	4.4
	362,684	56.7	336,441	66.1	327,537	71.4
<u>Brand Solutions:</u>						
Graphics Imaging	143,159	22.4	113,226	22.2	99,065	21.6
Marking Products	45,701	7.1	37,990	7.5	32,263	7.0
Merchandising Solutions	88,278	13.8	21,144	4.2	—	—
	277,138	43.3	172,360	33.9	131,328	28.6
Total	\$639,822	100.0%	\$508,801	100.0%	\$458,865	100.0%
Operating profit:						
<u>Memorialization:</u>						
Bronze	\$ 60,856	60.1%	\$ 54,337	55.6%	\$ 50,433	63.0%
Casket	13,131	13.0	14,585	14.9	12,740	15.9
Cremation	912	.9	1,475	1.5	1,242	1.6
	74,899	74.0	70,397	72.0	64,415	80.5
<u>Brand Solutions:</u>						
Graphics Imaging	15,520	15.3	19,287	19.7	11,562	14.4
Marking Products	7,587	7.5	6,539	6.7	4,107	5.1
Merchandising Solutions	3,281	3.2	1,571	1.6	—	—
	26,388	26.0	27,397	28.0	15,669	19.5
Total	\$101,287	100.0%	\$ 97,794	100.0%	\$ 80,084	100.0%

In fiscal 2005, approximately 74% of the Company's sales were made from the United States, and 23%, 2% and 1% were made from Europe, Canada and Australia, respectively. Bronze segment products are sold throughout the world with the segment's principal operations located in the United States, Italy, Canada and Australia. Casket segment products are primarily sold in the United States and Canada. Cremation segment products and services are sold primarily in North America, as well as Asia, Australia, and Europe. Products and services of the Graphics Imaging segment are sold primarily in the United States and Europe. The Marking Products segment sells equipment and consumables directly to industrial consumers and distributors in the United States and internationally through the Company's wholly-owned subsidiaries in Canada and Sweden and through other foreign distributors. Matthews owns a minority interest in Marking Products distributors in Asia, Australia, France, Germany, the Netherlands and the United Kingdom. The Merchandising Solutions segment products and services are sold principally in the United States.

MEMORIALIZATION PRODUCTS AND MARKETS:

Bronze:

The Bronze segment manufactures and markets products used primarily in the cemetery and funeral home industries. The segment's products, which are sold principally in the United States, Europe, Canada and Australia, include cast bronze memorials and other memorialization products used primarily in cemeteries. The segment also manufactures and markets cast and etched architectural products, that are produced from bronze, aluminum and other metals, which are used to identify or commemorate people, places, events and accomplishments.

Memorial products, which comprise the majority of the Bronze segment's sales, include flush bronze memorials, flower vases, crypt letters, cremation urns, niche units, cemetery features and statues, along with other related products and services. Flush bronze memorials are bronze plaques which contain personal information about a deceased individual such as name, birth date, death date and emblems. These memorials are used in cemeteries as an alternative to upright and flush granite monuments. The memorials are even or "flush" with the ground and therefore are preferred by many cemeteries for easier mowing and general maintenance. In order to provide products for the granite memorial and mausoleum markets, the Company's other memorial products include community and family mausoleums, granite monuments and benches, bronze plaques, letters, emblems, vases, lights and photoceramics that can be affixed to granite monuments, mausoleums, crypts and flush memorials. Matthews is a leading builder of mausoleums within North America. Principal customers for memorial products are cemeteries and memorial parks, which in turn sell the Company's products to the consumer.

Customers of the Bronze segment can also purchase memorials and vases on a "pre-need" basis. The "pre-need" concept permits families to arrange for these purchases in advance of their actual need. Upon request, the Company will manufacture the memorial to the customer's specifications (e.g., name and birth date) and place it in storage for future delivery. All memorials in storage have been paid in full with title conveyed to each pre-need purchaser.

The Bronze segment manufactures a full line of memorial products for cremation, including urns in a variety of sizes, styles and shapes. The segment also manufactures bronze and granite niche units, which are comprised of numerous compartments used to display cremation urns in mausoleums and churches. In addition, the Company also markets "turnkey" cremation gardens, which include the design and all related products for a cremation memorial garden.

Architectural products include cast bronze and aluminum plaques, etchings and letters that are used to recognize, commemorate and identify people, places, events and accomplishments. The Company's plaques are frequently used to identify the name of a building or the names of companies or individuals located within a building. Such products are also used to commemorate events or accomplishments, such as military service or financial donations. The principal markets for the segment's architectural products are corporations, fraternal organizations, contractors, churches, hospitals, schools and government agencies. These products are sold to and distributed through a network of independent dealers including sign suppliers, awards and recognition companies, and trophy dealers.

Raw materials used by the Bronze segment consist principally of bronze and aluminum ingot, sheet metal, coating materials, photopolymers and construction materials and are generally available in adequate supply. Ingot is obtained from various North American, European and Australian smelters.

Competition from other bronze memorialization product manufacturers is on the basis of reputation, product quality, delivery, price and design availability. The Company also competes with upright granite monument and flush granite memorial providers. The Company believes that its superior quality, broad product lines, innovative designs, delivery capability, customer responsiveness, experienced personnel and consumer-oriented merchandising systems are competitive advantages in its markets. Competition in the mausoleum construction industry includes various construction companies throughout North

America and is on the basis of design, quality and price. Competitors in the architectural market are numerous and include companies that manufacture cast and painted signs, plastic materials, sand-blasted wood and other fabricated products.

Casket:

The Casket segment is a leading manufacturer of caskets in the United States. The segment produces two types of caskets: metal and wood. Caskets can be customized with many different options such as color, interior design, handles and trim in order to accommodate specific religious, ethnic or other personal preferences.

Metal caskets are made from various gauges of cold rolled steel, stainless steel, copper and bronze. Metal caskets are generally categorized by whether the casket is non-gasketed or gasketed, and by material (i.e., bronze, copper, or steel) and in the case of steel, by the gauge, or thickness, of the metal.

The segment's wood caskets are manufactured from eight different species of wood, as well as from veneer. The species of wood used are poplar, pine, ash, oak, maple, cherry, walnut and mahogany. The Casket segment is a leading manufacturer of all-wood constructed caskets, which are manufactured using pegged and dowelled construction, and include no metal parts. All-wood constructed caskets are preferred by certain religious groups.

The segment also produces casket components. Casket components include stamped metal parts, metal locking mechanisms for gasketed metal caskets, adjustable beds, interior panels and plastic ornamental hardware for the exterior of the casket. Metal casket parts are produced by stamping cold rolled steel, stainless steel, copper and bronze sheets into casket body parts. Locking mechanisms and adjustable beds are produced by stamping and assembling a variety of steel parts. Certain ornamental hardware styles are produced from injection molded plastic. The segment purchases from sawmills and lumber distributors various species of uncured wood, which it dries and cures. The cured wood is processed into casket components.

Additionally, the segment provides assortment planning and merchandising and display products to funeral service businesses. These products assist funeral service professionals in providing value and satisfaction to their client families.

The primary materials required for casket manufacturing are cold rolled steel and lumber. The segment also purchases copper, bronze, stainless steel, cloth, ornamental hardware and coating materials. Purchase orders or supply agreements are typically negotiated with large, integrated steel producers that have demonstrated timely delivery, high quality material and competitive prices. Lumber is purchased from a number of sawmills and lumber distributors. The Company purchases most of its lumber from sawmills within 150 miles of its wood casket manufacturing facility in York, Pennsylvania.

Since its acquisition by Matthews in December 2001, the segment has marketed its casket products primarily through independent distributors. With the acquisition of Milso Industries Corporation in July 2005, the segment has expanded its casket distribution capabilities to include over twenty Company-owned distribution facilities.

The casket business is highly competitive. The segment competes with other manufacturers on the basis of product quality, price, service, design availability and breadth of product line. The segment provides a line of casket products that it believes is as comprehensive as any of its major competitors. Although there are a large number of casket industry participants, the Casket segment and its two largest competitors account for a substantial portion of the finished caskets produced in the United States.

Historically, the segment's operations have experienced seasonal variations. Generally, casket sales are highest in the second quarter and lowest in the fourth quarter of each fiscal year. These fluctuations are due in part to the seasonal variance in the death rate, with a greater number of deaths generally occurring in cold weather months.

Cremation:

The objective of the Cremation segment is to focus on the fastest growing segment of the death care industry, which is cremation products and services, and increase the Company's participation in this market. The segment has four major groups of products and services: cremation equipment, cremation caskets, equipment service and repair, and supplies and urns.

The Cremation segment is the leading designer and manufacturer of cremation equipment in North America. Cremation equipment includes systems for cremation of humans and animals, as well as equipment for processing the cremated remains and other related equipment such as handling equipment (tables, cooler racks, vacuums). Cremation equipment and products are sold primarily to funeral homes, cemeteries, crematories, animal disposers and veterinarians within North America, Asia, Australia and Europe.

Cremation casket products consist primarily of three types of caskets: cloth-covered wood, cloth-covered corrugated material and paper veneer-covered particleboard. These products are generally used in cremation and are marketed principally to funeral homes through independent distributors in the United States.

Service and repair consists of maintenance work performed on various makes and models of cremation equipment. This work can be as simple as routine maintenance or as complex as complete on-site reconstruction. The principal markets for these services are the owners and operators of cremation equipment. These services are marketed principally in North America through Company sales representatives.

Supplies and urns are consumable items associated with cremation operations. Supplies distributed by the segment include operator safety equipment, identification discs and combustible roller tubes. Urns distributed by the segment include products ranging from plastic containers to bronze urns for cremated remains. These products are marketed primarily in North America.

Raw materials used by the Cremation segment consist principally of structural steel, sheet metal, electrical components, cloth, wood, particleboard, corrugated materials, paper veneer and masonry materials and are generally available in adequate supply from numerous suppliers.

The Company competes with several manufacturers in the cremation equipment market principally on the basis of product quality and price. The Cremation segment and its three largest competitors account for a substantial portion of the domestic cremation equipment market. The cremation casket business is highly competitive. The segment competes with other cremation casket manufacturers on the basis of product quality, price and design availability. Although there are a large number of casket industry participants, the Cremation segment and its two largest competitors account for a substantial portion of the cremation caskets sold in the United States.

Historically, the segment's cremation casket operations have experienced seasonal variations. These fluctuations are due in part to the seasonal variance in the death rate, with a greater number of deaths generally occurring in cold weather months.

BRAND SOLUTIONS PRODUCTS AND MARKETS:

Graphics Imaging:

The Graphics Imaging segment provides printing plates, pre-press services and imaging services to the corrugated and primary packaging industries. The corrugated packaging industry consists of manufacturers of printed corrugated containers. The primary packaging industry consists of manufacturers of printed packaging materials such as boxes, folding cartons and bags commonly seen at retailers of consumer goods.

The principal products and services of this segment include printing plates, pre-press graphics services, print process assistance, print production management, digital asset and content management, and package design. These products and services are used by packaging manufacturers and brand owners to develop and print packaging graphics that identify and help sell the product. Other packaging graphics can include nutritional information, directions for product use, consumer warning statements and UPC codes. The corrugated packaging manufacturer produces printed containers from corrugated sheets. Using the Company's products, this sheet is printed and die cut to make a finished container. The primary packaging manufacturer produces printed packaging from paper, film, foil and other composite materials used to display, protect and market the product.

The Company works closely with manufacturers to provide the proper printing plates and tooling used to print the packaging to the user's specifications. The segment's printing plate products are made principally from photopolymer resin and sheet materials. Upon customer request, plates can be pre-mounted press-ready in a variety of configurations that maximize print quality and minimize press set-up time.

The segment offers a wide array of value-added services and products. These include print process and print production management services; pre-press preparation, which includes computer-generated art, film and proofs; plate mounting accessories and various press aids; and rotary and flat cutting dies used to cut out intricately designed containers and point-of-purchase displays. The segment also provides creative digital graphics services to advertising agencies and packaging markets.

The Graphics Imaging segment customer base consists primarily of packaging industry converters and "brand owners." Brand owners are generally large, well-known consumer products companies and retailers with a national or global presence. These types of companies tend to purchase their graphics needs directly and supply the printing plates, or the film to make the printing plates, to the packaging printer for their products. The Graphics Imaging segment serves customers primarily in the United States and Europe. In Europe, Matthews has subsidiaries in England, Germany and Austria. Products and services of these operations include pre-press packaging, digital and analog flexographic printing plates, design, artwork, lithography and color separation.

Major raw materials for this segment's products include photopolymers, film and graphic art supplies. All such materials are presently available in adequate supply from various industry sources.

The Graphics Imaging segment is one of several manufacturers of printing plates and providers of pre-press services with an international presence in the United States and Europe. The segment competes in a fragmented industry consisting of a few multi-plant regional printing plate suppliers and a large number of local single-facility companies located across the United States and Europe. The combination of the Company's Graphics Imaging business in the United States and Europe is an important part of Matthews' strategy to become a worldwide leader in the graphics industry and service multinational customers on a global basis. Competition is on the basis of product quality, timeliness of delivery, price and value-added services. The Company differentiates itself from the competition by consistently meeting customer demands, its ability to service customers nationally and globally, and its ability to provide value-added services.

Marking Products:

The Marking Products segment designs, manufactures and distributes a wide range of marking and coding products and related consumables, as well as industrial automation products. The Company's products are used by manufacturers and suppliers to identify, track and convey their products and packaging. Marking products can range from a simple hand stamp to microprocessor-based ink-jet printing systems. Coding systems often integrate into the customers manufacturing, inventory tracking and conveyance control systems. The Company manufactures and markets products and systems that employ the following marking methods to meet customer needs: contact printing, indenting, etching and ink-jet printing.

Customers will often use a combination of these methods in order to achieve an appropriate mark. These methods apply product information required for identification and traceability as well as to facilitate inventory and quality control, regulatory compliance and brand name communication.

Industrial automation products that the Company manufactures are based upon embedded control architecture to create innovative custom solutions which can be “productized.” Industries that products are created for include oil exploration, material handling and security scanning. The material handling industry customers include the largest automated assembly and mail sorting companies in the United States.

A significant portion of the revenue of the Marking Products segment is attributable to the sale of consumables and replacement parts in connection with the marking, coding and tracking hardware sold by the Company. The Company develops inks, rubber and steel consumables in harmony with the marking equipment in which they are used, which is critical to assure ongoing equipment reliability and mark quality. Many marking equipment customers also use the Company's inks, solvents and cleaners.

The principal customers for the Company's marking products are consumer goods manufacturers, including food and beverage processors, producers of pharmaceuticals, and manufacturers of durable goods and building products. The Company also serves a wide variety of industrial markets, including metal fabricators, manufacturers of woven and non-woven fabrics, plastic, rubber and automotive products.

A large percentage of the segment's sales are outside the United States and are distributed through the Company's subsidiaries in Canada and Sweden in addition to other international distributors. Matthews owns a minority interest in distributors in Asia, Australia, France, Germany, the Netherlands and the United Kingdom.

The marking products industry is diverse, with companies either offering limited product lines for well-defined specialty markets, or similar to the Company, offering a broad product line and competing in various product markets and countries. In the United States, the Company has manufactured and sold marking products and related consumable items since 1850.

Major raw materials for this segment's products include, precision components, electronics, printing components, tool steels, rubber and chemicals, all of which are presently available in adequate supply from various sources.

Competition for marking products is intense and based on product performance, integration into the manufacturing process, service and price. The Company normally competes with specialty companies in specific brand marking solutions and traceability applications. The Company believes that, in general, it offers the broadest line of marking products to address a wide variety of industrial marking applications.

Merchandising Solutions:

The Merchandising Solutions segment, acquired by Matthews in July 2004, provides merchandising and printing solutions for manufacturers and retailers. The segment designs, manufactures and installs merchandising and display systems, and also provides marketing and merchandising consulting services.

The majority of the segment's sales are derived from the design, engineering, manufacturing and installation of merchandising and display systems. These systems include permanent and temporary displays, custom store fixtures, brand concept shops, interactive kiosks, custom packaging, and screen and digitally printed promotional signage. Design and engineering services include concept and model development, graphics design and prototyping. Merchandising and display systems are manufactured to specifications developed by the segment in conjunction with the customer. These products are marketed and sold to a variety of companies primarily in the United States.

The segment also provides consulting services in the areas of consumer research and strategy, retail design, merchandise planning, brand and product communications, marketing and product design. These services are provided to a wide variety of manufacturing, retail and consumer products and services customers, principally in the United States.

The segment operates in a fragmented industry consisting of a large number of small, locally operated companies. Industry competition is intense and the segment competes on the basis of reliability, creativity and providing a broad array of merchandising products and services. The segment is unique in its ability to provide in-depth marketing and merchandising consulting services as well as design, engineering and manufacturing capabilities. These capabilities allow the segment to deliver complete turnkey merchandising solutions quickly and cost effectively.

Major raw materials for the segment's products include wood, particleboard, corrugated materials, structural steel, plastic, laminates, inks, film and graphic art supplies. All of these raw materials are presently available in adequate supply from various sources.

PATENTS, TRADEMARKS AND LICENSES:

The Company holds a number of domestic and foreign patents and trademarks. However, the Company believes the loss of any or a significant number of patents or trademarks would not have a material impact on consolidated operations or revenues.

BACKLOG:

Because the nature of the Company's Bronze, Graphics Imaging and Merchandising Solutions businesses are primarily custom products made to order with short lead times, backlogs are not generally material except for mausoleums. Backlogs vary in a range of approximately one year of sales for mausoleums. The Casket segment and the cremation casket business normally fill sales orders within one month and, therefore, do not have a significant backlog of unfilled orders. Cremation equipment sales backlogs vary in a range of eight to ten months of sales. Backlogs generally vary in a range of up to four weeks of sales in the Marking Products segment.

REGULATORY MATTERS:

The Company's operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require the Company to obtain and operate in compliance with conditions of permits and other government authorizations. As such, the Company has developed environmental, health and safety policies and procedures that include the proper handling, storage and disposal of hazardous materials.

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, Pennsylvania. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At September 30, 2005, an accrual of \$10.5 million has been recorded for environmental remediation (of which \$860,000 has been classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

ITEM 1A. RISK FACTORS.

Risk factors specific to the Company relate primarily to the Casket segment and include Civil Investigative Demands from the Attorneys General in Maryland, Florida and Connecticut; an antitrust suit filed in the United States District Court for the Northern District of California; and the potential loss of the segment's largest independent distributor of caskets. Each of these factors are described more fully in Item 3 "Legal Proceedings" of this Form 10-K.

Other general risk factors that could affect the Company's future results principally include changes in domestic or international economic conditions, changes in foreign currency exchange rates, changes in commodity pricing which effect the cost of materials used in the manufacture of the Company's products, changes in death rates, changes in product demand or pricing as a result of consolidation in the industries in which the Company operates, changes in product demand or pricing as a result of domestic or international competitive pressures, unknown risks in connection with the Company's acquisitions, and technological factors beyond the Company's control. Although the Company does not have any customers that would be considered individually significant to consolidated sales, the potential loss of one or more of the Company's larger customers could be considered a risk factor. These factors are also included in this Form 10-K under the caption "Cautionary Statement Regarding Forward-Looking Information."

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 2. PROPERTIES.

Principal properties of the Company and its majority-owned subsidiaries as of November 30, 2005 were as follows (properties are owned by the Company except as noted):

Location	Description of Property	Square Feet
Bronze:		
Pittsburgh, PA	Manufacturing / Division Offices	97,000
Kingwood, WV	Manufacturing	121,000
Melbourne, Australia	Manufacturing	26,000 ¹
Milton, Ontario, Canada	Manufacturing	30,000
Parma, Italy	Manufacturing / Warehouse	231,000 ¹
Romoland, CA	Manufacturing	24,000
Searcy, AR	Manufacturing	113,000
Seneca Falls, NY	Manufacturing	21,000
Casket:		
Brooklyn, NY	Distribution / Administrative Offices	47,000 ¹
Lynn, IN	Manufacturing	76,000
Marshfield, MO	Manufacturing	86,000
Monterrey, Mexico	Manufacturing	178,000 ¹
Richmond, IN	Manufacturing	55,000 ¹
Richmond, IN	Manufacturing / Metal Stamping	92,000
Richmond, IN	Injection Molding	18,000 ¹
York, PA	Manufacturing	307,000
Cremation:		
Apopka, FL	Manufacturing / Division Offices	40,000
Richmond, IN	Manufacturing	164,000 ¹
Graphics Imaging:		
Pittsburgh, PA	Manufacturing / Division Offices	56,000
Jülich, Germany	Manufacturing / Division Offices	24,000
Atlanta, GA	Manufacturing	16,000
Dallas, TX	Manufacturing	15,000 ¹
Denver, CO	Manufacturing	12,000 ¹
Goslar, Germany	Manufacturing	39,000 ¹
Kansas City, MO	Manufacturing	42,000 ¹
Leeds, England	Manufacturing	64,000 ¹
Munich, Germany	Manufacturing	10,000 ¹
Nuremberg, Germany	Manufacturing	27,000 ¹
Oakland, CA	Manufacturing	40,000 ¹
St. Louis, MO	Manufacturing	25,000
Vienna, Austria	Manufacturing	38,000 ¹
Marking Products:		
Pittsburgh, PA	Manufacturing / Division Offices	85,000
Gothenburg, Sweden	Manufacturing / Distribution	28,000 ¹
Tualatin, OR	Manufacturing	15,000 ¹
Merchandising Solutions:		
East Butler, PA	Manufacturing / Division Offices	630,000 ²
Pittsburgh, PA	Manufacturing	45,000 ¹
Pittsburgh, PA	Manufacturing	96,000 ¹
Youngwood, PA	Warehouse	145,000 ¹
Corporate Office:		
Pittsburgh, PA	General Offices	48,000

In addition, the Casket division leases warehouse facilities totaling approximately 398,000 square feet in 14 states under operating leases.

¹ These properties are leased by the Company under operating lease arrangements. Rent expense incurred by the Company for all leased facilities was approximately \$8,000,000 in fiscal 2005.

² Approximately one-fifth of this building is leased to unrelated parties.

All of the owned properties are unencumbered. The Company believes its facilities are generally well suited for their respective uses and are of adequate size and design to provide the operating efficiencies necessary for the Company to be competitive. The Company's facilities provide adequate space for meeting its near-term production requirements and have availability for additional capacity. The Company intends to continue to expand and modernize its facilities as necessary to meet the demand for its products.

ITEM 3. LEGAL PROCEEDINGS.

In August 2005, The York Group, Inc. ("York"), a wholly-owned subsidiary of the Company, was served with Civil Investigative Demands ("CIDs") from the Attorneys General in Maryland and Florida. Thereafter, in October 2005, York was also served with a CID from the Attorney General in Connecticut. The pending CIDs are part of a multi-state investigation in which the Attorneys General from Maryland, Florida and Connecticut have requested information from various sources, including several national owners and operators of funeral homes, as well as several manufacturers of caskets, regarding alleged anti-competitive practices in the funeral service industry. As one of many potential sources of information, York has already timely responded to the document production request communicated through the CIDs. Presently, the investigation remains in the preliminary stages and the scope of the investigation remains limited to evaluating the sale of caskets in the funeral service industry.

In September 2005, Ralph Lee Fancher ("Fancher") re-filed an antitrust suit originally filed in Tennessee against several national owners and operators of funeral homes as well as several manufacturers and marketers of caskets, including York. The antitrust suit was re-filed in the United States District Court for the Northern District of California. Fancher alleges violations of Tennessee antitrust laws, consumer protection laws and unjust enrichment laws. No violations of federal law are alleged. In general, Fancher alleges a conspiracy to suppress competition for caskets, disparagement against "Independent Casket Discounters" and efforts to restrict casket price competition. Fancher seeks certification of two classes of Tennessee consumers and seeks unspecified monetary damages, trebling of any such damages that may be awarded, where appropriate, and recovery of attorney's fees and costs. The parties have consented to the transfer of the suit to the United States District Court for the Southern District of Texas, but it has not yet been docketed in that Court.

It is possible that resolution of the foregoing matters could be unfavorable to the Company; however, given the preliminary nature of both proceedings, the Company does not presently have sufficient information to estimate the materiality of such impact. The Company also believes that York's inclusion in the antitrust suit is without merit and intends to vigorously defend itself against the allegations.

In October 2005, York filed a complaint and a motion for special and/or preliminary injunction in the Court of Common Pleas of Allegheny County, Pennsylvania against Yorktowne Caskets, Inc. ("Yorktowne"), the shareholders of Yorktowne, Batesville Casket Company, Inc. and Batesville Services. This action was taken in response to the announcement that Batesville Casket Company, Inc. and/or Batesville Services (collectively "Batesville") had entered into a definitive agreement to acquire the outstanding stock of Yorktowne, York's largest independent distributor of wood and metal caskets. The causes of action alleged by York involve the distributor agreement between York and Yorktowne which is in effect through April 14, 2007.

ITEM 3. LEGAL PROCEEDINGS (continued)

The Court issued a Decision and Order on November 9, 2005 concluding that York had demonstrated its entitlement to a preliminary injunction and ordered: (1) Yorktowne, its shareholders and Batesville to refrain from further pursuit or consummation of the proposed sale of Yorktowne to Batesville; (2) Yorktowne and its shareholders to provide York with the right of first refusal as required under the enforceable distributor agreement; (3) Yorktowne and its shareholders to refrain from violating the non-assignment provisions of the distributor agreement; (4) Yorktowne to use its best efforts to promote York products and to refrain from selling, marketing or promoting products in competition with York; and (5) Yorktowne's shareholders and Batesville from interfering with the distributor agreement between York and Yorktowne.

The lawsuit against Yorktowne, its shareholders and Batesville remains pending and the defendants have filed an appeal of the Court's injunction ruling to the Superior Court of Pennsylvania.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the fourth quarter of fiscal year 2005.

OFFICERS AND EXECUTIVE MANAGEMENT OF THE REGISTRANT

The following information is furnished with respect to officers and executive management as of November 30, 2005:

Name	Age	Positions with Registrant
David M. Kelly	63	Chairman of the Board and Chief Executive Officer
Joseph C. Bartolacci	45	President and Chief Operating Officer
David F. Beck	53	Controller
Martin J. Beck	62	President, Brand Solutions
David J. DeCarlo	60	Vice Chairman
Brian J. Dunn	48	President, Marking Products Division
David H. Hewitt	55	President, Bronze Division
Lawrence W. Keeley, Jr.	44	President, Packaging Graphics Division
Ralph W. Murray	72	Chairman of the Board of Advisors, The Cloverleaf Group, Inc.
Steven F. Nicola	45	Chief Financial Officer, Secretary and Treasurer
Harry A. Pontone	75	President, Casket Division
Paul F. Rahill	48	President, Cremation Division
Franz J. Schwarz	57	Managing Director, Matthews International GmbH

David M. Kelly has been Chairman of the Board since March 1996. He was appointed President and Chief Executive Officer of the Company in October 1995.

Joseph C. Bartolacci was appointed President and Chief Operating Officer effective September 1, 2005. Mr. Bartolacci was elected to the Board of Directors on November 15, 2005. He had been President, Casket Division since February 2004 and Executive Vice President of Matthews since January 1, 2004. He had been President, Matthews Europe since April 2002, and had also been President, Caggiati, S.p.A. (a wholly-owned subsidiary of Matthews International Corporation) since June 1999. Prior thereto, he was General Counsel of Matthews.

David F. Beck was appointed Controller effective September 15, 2003. He had been Vice President, Finance for the Company's Casket segment since December 2001. Prior thereto, he held various financial positions as an officer with The York Group, Inc.

Martin J. Beck was appointed President, Brand Solutions effective August 2005. He joined the Company in July 2004 as President and Chief Executive Officer of The Cloverleaf Group, Inc. (a wholly-owned subsidiary of Matthews International Corporation). Mr. Beck served as President and Chief Executive Officer of Big Red Rooster, Inc., a marketing services company, from its founding in September 2002 until its acquisition as part of The Cloverleaf Group, Inc., by Matthews in July 2004. Prior thereto, he served as President and Chief Executive Officer of Ten Worldwide from January 2001 to May 2002, and of Lighthouse Global Network from January 2000 to December 2000, both of which were integrated marketing services companies.

David J. DeCarlo, a Director of the Company since 1987, was appointed Vice Chairman effective September 1, 2005. Mr. DeCarlo had been Group President, Bronze and Casket Divisions since February 2004 and prior thereto had been President, Bronze Division since November 1993.

Brian J. Dunn was appointed President, Marking Products Division in 2002. Prior thereto, he was President, Marking Products, North America since November 2000. He had been National Sales Manager, Marking Products, North America since joining the Company in November 1998.

David H. Hewitt joined the Company in February 2005 as President, Bronze Division. From 2000 to 2005, Mr. Hewitt served in various executive positions with General Binding Corporation, a designer and manufacturer of branded binding, laminating and office equipment.

Lawrence W. Keeley, Jr. has been President, Packaging Graphics Division, since joining the Company in 1999.

Ralph W. Murray joined the Company in July 2004 as Chairman of the Board of Advisors of The Cloverleaf Group, Inc. Prior thereto, Mr. Murray served as Chairman and Chief Executive Officer of iDL, Inc. (a part of The Cloverleaf Group, Inc.), a merchandising display and design services company.

Steven F. Nicola was appointed Chief Financial Officer, Secretary and Treasurer effective December 1, 2003. Prior thereto, he was Vice President, Accounting and Finance since December 2001. He had been Controller of the Company since December 1995.

Harry A. Pontone joined the Company in July 2005 as President, Casket Division upon Matthews' acquisition of Milso Industries, a casket manufacturer and distributor. Mr. Pontone served as President of Milso Industries for more than five years prior to its acquisition by Matthews.

Paul F. Rahill has been President, Cremation Division since October 2002. He performed independent consulting services from April 2000 until October 2002.

Franz J. Schwarz joined Matthews International GmbH (a wholly-owned subsidiary of Matthews International Corporation) in 2000 as Managing Director and is responsible for certain of the Company's European Graphics business. Prior to joining the Company, he was the Managing Director and a partial owner of S+T Gesellschaft für Reprotechnik GmbH ("S+T GmbH"), a provider of printing plates and print services located in Jülich, Germany. Matthews International GmbH acquired a 50% ownership interest in S+T GmbH in 1998 and an additional 30% interest as of September 30, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) Market Information:

The authorized common stock of the Company consists of 70,000,000 shares of Class A Common Stock, \$1 par value. The Company's Class A Common Stock is traded on the NASDAQ National Market System under the symbol "MATW". The following table sets forth the high, low and closing prices as reported by NASDAQ for the periods indicated:

		High	Low	Close
Fiscal 2005:				
Quarter ended:	September 30, 2005	\$41.86	\$36.13	\$37.80
	June 30, 2005	39.50	31.54	38.96
	March 31, 2005	38.48	31.78	32.76
	December 31, 2004	38.38	31.36	36.80
Fiscal 2004:				
Quarter ended:	September 30, 2004	\$36.81	\$30.31	\$33.88
	June 30, 2004	33.09	28.10	32.94
	March 31, 2004	33.39	28.98	33.20
	December 31, 2003	30.37	26.00	29.59

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors has authorized the repurchase of a total of 10,000,000 shares of Matthews' common stock, of which 8,621,396 shares have been repurchased as of September 30, 2005. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

All purchases of the Company's common stock during fiscal 2005 were part of this repurchase program.

The following table shows the monthly fiscal 2005 stock repurchase activity:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 2004	112,300	\$32.61	112,300	2,059,032
November 2004	66,200	35.90	66,200	1,992,832
December 2004	160,519	37.03	160,519	1,832,313
January 2005	133,509	36.02	133,509	1,698,804
February 2005	114,700	35.01	114,700	1,584,104
March 2005	204,500	34.66	204,500	1,379,604
April 2005	—	—	—	1,379,604
May 2005	—	—	—	1,379,604
June 2005	1,000	38.32	1,000	1,378,604
July 2005	—	—	—	1,378,604
August 2005	—	—	—	1,378,604
September 2005	—	—	—	1,378,604
Total	792,728	\$35.23	792,728	

(b) Holders:

Based on records available to the Company, the number of registered holders of the Company's common stock was 518 at November 30, 2005.

(c) Dividends:

A quarterly dividend of \$.05 per share was paid for the fourth quarter of fiscal 2005 to shareholders of record on October 31, 2005. The Company paid quarterly dividends of \$.045 per share for the first three quarters of fiscal 2005 and the fourth quarter of fiscal 2004. The Company paid quarterly dividends of \$.04 per share for the first three quarters of fiscal 2004.

Cash dividends have been paid on common shares in every year for at least the past forty years. It is the present intention of the Company to continue to pay quarterly cash dividends on its common stock. However, there is no assurance that dividends will be declared and paid as the declaration and payment of dividends is at the discretion of the Board of Directors of the Company and is dependent upon the Company's financial condition, results of operations, cash requirements, future prospects and other factors deemed relevant by the Board.

ITEM 6. SELECTED FINANCIAL DATA.

Years Ended September 30,

	2005	2004	2003 ¹	2002 ²	2001 ³
(Amounts in thousands, except per share data) (Not Covered by Report of Independent Registered Public Accounting Firm)					
Net sales	\$639,822	\$508,801	\$458,865	\$428,086	\$283,282
Gross profit	223,075	193,754	170,302	160,364	119,436
Operating profit	101,287	97,794	80,084	68,187	53,357
Interest expense	2,966	1,998	2,852	4,171	1,647
Income before income taxes and change in accounting	95,930	91,833	73,354	62,457	51,458
Income taxes	36,106	35,638	28,461	24,225	19,859
Income before change in accounting	59,824	56,195	44,893	38,232	31,599
Cumulative effect of change in accounting, net of tax	—	—	—	(3,226)	—
Net income	\$ 59,824	\$ 56,195	\$ 44,893	\$ 35,006	\$ 31,599
Earnings per common share:					
Diluted, before change in accounting	\$ 1.84	\$ 1.72	\$ 1.39	\$ 1.20	\$ 1.01
Diluted	1.84	1.72	1.39	1.10	1.01
Basic	1.86	1.74	1.42	1.14	1.03
Weighted-average common shares outstanding:					
Basic	32,116	32,217	31,686	30,765	30,560
Diluted	32,525	32,689	32,315	31,796	31,320
Cash dividends per share	\$.185	\$.165	\$.123	\$.106	\$.101
Total assets	\$662,067	\$530,542	\$440,182	\$422,601	\$288,952
Long-term debt, non-current	118,952	54,389	57,023	96,487	40,726

¹ Fiscal 2003 included a net pre-tax charge of approximately \$1,000 from special items which consisted of a pre-tax gain of \$2,600 on the sale of a facility and a goodwill impairment charge of \$3,600 (see Note 18 to the Consolidated Financial Statements).

² In fiscal 2002, the Company recorded a pre-tax charge of \$5,255 for transitional goodwill impairment as a result of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

³ The second quarter of fiscal 2001 included net pre-tax income of \$500 from special items which consisted of a pre-tax gain of \$7,099 on the sale of a subsidiary and asset impairments, restructuring costs and other special pre-tax charges totaling \$6,600.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the consolidated financial statements of Matthews International Corporation and related notes thereto. In addition, see "Cautionary Statement Regarding Forward-Looking Information" included in Part I of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS:

The following table sets forth certain income statement data of the Company expressed as a percentage of net sales for the periods indicated and the percentage change in such income statement data from year to year.

	Years Ended September 30,			Percentage Change	
	2005	2004	2003 ¹	2005 – 2004	2004 – 2003
Sales	100.0%	100.0%	100.0%	25.8%	10.9%
Gross profit	34.9	38.1	37.1	15.1	13.8
Operating profit	15.8	19.2	17.5	3.6	22.1
Income before taxes	15.0	18.0	16.0	4.5	25.2
Net income	9.4	11.0	9.8	6.5	25.2

¹ Fiscal 2003 included a net pre-tax charge of approximately \$1.0 million from special items (see "Special Items").

Comparison of Fiscal 2005 and Fiscal 2004:

Sales for the year ended September 30, 2005 were \$639.8 million and were \$131.0 million, or 25.8%, higher than sales of \$508.8 million for the year ended September 30, 2004. The increase resulted principally from acquisitions, which included Milso Industries Corporation ("Milso") during the fourth quarter of fiscal 2005 and a full twelve months of activity for The Cloverleaf Group, Inc. ("Cloverleaf"), The InTouch Group, Limited ("InTouch") and Holjeron Corporation ("Holjeron"), which were acquired during the fourth quarter of fiscal 2004. In addition, higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$5.9 million on the Company's consolidated sales compared to the prior year. Bronze segment sales for fiscal 2005 were \$205.7 million, compared to \$197.4 million for fiscal 2004. The higher level of Bronze segment sales principally reflected higher memorial sales (which included price surcharges related to increases in the cost of bronze ingot) and the favorable impact of increases in the values of foreign currencies against the U.S. dollar. These increases were offset partially by a decline in mausoleum sales. Sales for the Casket segment were \$135.5 million for fiscal 2005, compared to \$116.6 million for fiscal 2004. The increase primarily reflected the acquisition of Milso in July 2005. Sales for the Cremation segment were \$21.5 million for the year ended September 30, 2005, compared to \$22.5 million for fiscal 2004. The decrease primarily reflected a decline in volume of cremation caskets. Sales for the Graphics Imaging segment in fiscal 2005 were \$143.2 million, compared to \$113.2 million in fiscal 2004. The increase primarily reflected the acquisition of InTouch and an increase in the value of the Euro against the U.S. dollar. Marking Products segment sales for the year ended September 30, 2005 were \$45.7 million, compared to \$38.0 million for the year ended September 30, 2004. The increase of \$7.7 million was principally due to the acquisition of Holjeron, higher sales volume, and the increase in value of the Swedish Krona against the U.S. dollar. Sales for Cloverleaf, which is reported as the Company's Merchandising Solutions segment, were \$88.3 million for fiscal 2005, compared to \$21.1 million for fiscal 2004 (acquired in July 2004).

Gross profit for the year ended September 30, 2005 was \$223.1 million, compared to \$193.8 million for the year ended September 30, 2004. Consolidated gross profit as a percent of sales decreased from 38.1% for fiscal 2004 to 34.9% for fiscal 2005. The increase in consolidated gross profit primarily reflected the Milso acquisition completed in the fourth quarter of fiscal 2005, the full year impact of the acquisitions of Cloverleaf, InTouch and Holjeron during the fourth quarter of fiscal 2004, the effects of manufacturing improvements and cost reduction initiatives in several of the Company's segments, and higher foreign exchange values against the U.S. dollar. These gains were partially offset by lower sales in the Cremation segment, higher costs for bronze ingot and steel, and costs incurred in connection with the establishment of a casket manufacturing facility in Mexico. The gross margin percentage decline principally related to the factors discussed above, as well as the inclusion of a full year of results for Cloverleaf, which generally has lower gross margins than other Matthews' businesses.

Selling and administrative expenses for the year ended September 30, 2005 were \$121.8 million, compared to \$96.0 million for fiscal 2004. The increase resulted primarily from the aforementioned acquisitions. Consolidated selling and administrative expenses as a percent of sales were 19.0% for the year ended September 30, 2005, compared to 18.9% for fiscal 2004. The increase reflected the July 2005 acquisition of Milso. As a distributor of caskets, Milso has higher selling and administrative expenses as a percentage of sales than most of Matthews' other businesses. This increase was partially offset by cost controls in the Bronze segment and the July 2004 acquisition of Cloverleaf, which generally has lower selling and administrative expenses as a percentage of sales than other Matthews' businesses.

Operating profit for fiscal 2005 was \$101.3 million, representing an increase of \$3.5 million over operating profit of \$97.8 million for the year ended September 30, 2004. Higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$1.5 million on the Company's consolidated operating profit for the year ended September 30, 2005 compared to fiscal 2004. Bronze segment operating profit for fiscal 2005 was \$60.9 million, compared to \$54.3 million for the year ended September 30, 2004. The increase reflected higher sales, the continuing effects of prior year cost reduction initiatives and the favorable impact of the increase in the value of foreign currencies against the U.S. dollar. In addition, the segment's operating profit during the prior year included one-time severance costs related to personnel reductions. Operating profit for the Casket segment for the year ended September 30, 2005 was \$13.1 million, compared to \$14.6 million for fiscal 2004. The decrease primarily reflected the higher cost of steel and costs incurred in connection with the establishment of a casket manufacturing facility in Mexico. Fiscal 2005 expenses related to the Mexico project approximated \$3.7 million. These factors were partially offset by higher sales and operating efficiencies realized in connection with productivity initiatives. Cremation segment operating profit was \$912,000 for fiscal 2005, compared to \$1.5 million for fiscal 2004. The decrease primarily reflected lower sales volume and higher raw material costs. The Company estimates that for 2005, the aggregate negative impact on consolidated operating profit of increases in the cost of steel and bronze, net of the bronze price surcharges, approximated \$2.9 million compared to fiscal 2004. Graphics Imaging operating profit for the year ended September 30, 2005 was \$15.5 million, compared to \$19.3 million for the year ended September 30, 2004. The segment's decrease in operating profit reflected lower margins in North America and several European graphics businesses and investments during fiscal 2005 in developing new domestic accounts. Operating profit for the Marking Products segment for fiscal 2005 was \$7.6 million, compared to \$6.5 million for fiscal 2004. The increase resulted from the acquisition of Holjeron, the benefit of higher sales, and the increase in value of the Swedish Krona against the U.S. dollar. These gains were partially offset by an increase in new product development costs. The Cloverleaf acquisition, reported as the Merchandising Solutions segment, contributed \$3.3 million of operating profit during fiscal 2005, compared to \$1.6 million for fiscal 2004 (acquired in July 2004).

Investment income for the year ended September 30, 2005 was \$1.7 million, compared to \$1.6 million for fiscal 2004. The increase from the prior year primarily reflected higher rates of return on invested cash.

Interest expense for the year ended September 30, 2005 was \$3.0 million, compared to \$2.0 million for the prior year. The increase in interest expense primarily reflected new borrowings under the Company's domestic Revolving Credit Facility (see "Liquidity and Capital Resources"). Other income (deductions), net, for the year ended September 30, 2005 represented an increase in pre-tax income of \$1.7 million, compared to a reduction in pre-tax income of \$57,000 for fiscal 2004. Other income in fiscal 2005 primarily reflected foreign currency exchange gains on intercompany advances to foreign affiliates. Minority interest deduction for fiscal 2005 was \$5.8 million, compared to \$5.5 million for fiscal 2004. The higher minority interest deduction for fiscal 2005 resulted principally from an increase in operating income in several of the Company's less than wholly-owned European Graphics Imaging businesses.

The Company's effective tax rate for the year ended September 30, 2005 was 37.6% compared to 38.8% for fiscal 2004. The decrease in the effective tax rate resulted primarily from lower state and foreign taxes. The difference between the Company's effective tax rate and the Federal statutory rate of 35% primarily reflected the impact of state and foreign income taxes.

Comparison of Fiscal 2004 and Fiscal 2003:

Sales for the year ended September 30, 2004 were \$508.8 million and were \$49.9 million, or 10.9%, higher than sales of \$458.9 million in fiscal 2003. The increase resulted principally from the acquisitions of Cloverleaf, InTouch and Holjeron during the fourth quarter of fiscal 2004, higher foreign currency exchange rates and a full twelve months of activity for Reproservice Eurodigital GmbH München ("Reproservice Munich"), which was acquired in August 2003. Sales for the Merchandising Solutions segment totaled \$21.1 million from the acquisition date through September 30, 2004. The higher foreign currency values against the U.S. dollar had a favorable impact on sales of approximately \$12.5 million in fiscal 2004 compared to fiscal 2003. Bronze segment sales for fiscal 2004 were \$197.4 million, compared to \$187.0 million for the year ended September 30, 2003. The \$10.4 million increase reflected the favorable impact of increases in the value of foreign currencies against the U.S. dollar, the effect of the temporary price surcharge instituted in April 2004, and higher sales of architectural products. These increases were partially offset by a decline in mausoleum sales. Sales for the Casket segment were \$116.6 million for fiscal 2004, compared to \$120.4 million for the year ended September 30, 2003. The decline reflected the sale of a small manufacturing facility and several distribution operations in fiscal 2003 and lower volume in the fiscal 2004 fourth quarter. Fiscal 2004 sales for the Cremation segment were \$22.5 million, compared to \$20.2 million for the year ended September 30, 2003. The \$2.3 million increase reflected higher sales of cremation equipment and cremation caskets. Graphics Imaging segment sales were \$113.2 million for the year ended September 30, 2004, compared to \$99.1 million for fiscal 2003. The increase of \$14.1 million, or 14.3%, primarily reflected the acquisitions of Reproservice Munich and InTouch, the increase in the value of the Euro against the U.S. dollar and increased sales by the segment's European operations. Marking Products segment sales were \$38.0 million for fiscal 2004, compared to \$32.3 million for the year ended September 30, 2003. The increase of \$5.7 million, or 17.8%, reflected the acquisition of Holjeron, an increase in the value of the Swedish Krona against the U.S. dollar and higher demand resulting from an improvement in the U.S. economy.

Gross profit for the year ended September 30, 2004 was \$193.8 million, compared to \$170.3 million for the year ended September 30, 2003. The increase primarily reflected the acquisition of Reproservice Munich in August 2003 and the acquisitions of Holjeron, Cloverleaf and InTouch during the fourth quarter of fiscal 2004, higher sales, operational improvements in several of the Company's businesses and the impact of higher foreign currency values against the U.S. dollar. Bronze segment gross profit for fiscal 2003 was positively impacted by a reduction in the segment's finishing cost liability as a result of manufacturing efficiency improvements. Bronze segment gross profit for fiscal 2004 was impacted by a charge for the cost of early retirement and other severance costs as well as increases in the cost of bronze ingot. Casket segment gross profit for fiscal 2004 was impacted by the rising cost of cold rolled steel, stainless steel, copper and bronze, and an impairment charge on various assets. Graphics Imaging fiscal 2004 gross profit improved principally as a result of higher European sales and the closure of unprofitable operations in Southern California and North Carolina during fiscal 2003.

Consolidated gross profit as a percentage of sales increased to 38.1% for fiscal 2004 from 37.1% for fiscal 2003. The Company's improvement in consolidated gross profit as a percent of sales reflected higher sales, cost reduction initiatives and improvements in manufacturing efficiency, which were partially offset by higher raw material costs, an asset impairment charge and the addition of the Merchandising Solutions segment revenues that have a lower gross margin than the Company's other segments.

Selling and administrative expenses for the year ended September 30, 2004 were \$96.0 million, compared to \$89.2 million for the year ended September 30, 2003. The increase of \$6.8 million primarily reflected the acquisitions of Reproservice Munich in August 2003 and Holjeron, Cloverleaf and InTouch in the fourth quarter of fiscal 2004 and the impact of higher foreign currency values against the U.S. dollar. Consolidated selling and administrative expenses as a percentage of sales were 18.9% for the year ended September 30, 2004, compared to 19.4% for the year ended September 30, 2003. The reduction principally reflected the Company's fiscal 2004 acquisition of Cloverleaf, which has lower selling and administrative costs as a percentage of sales than most of the Company's other businesses.

Operating profit for the year ended September 30, 2004 was \$97.8 million, compared to \$80.1 million for fiscal 2003, an increase of \$17.7 million, or 22.1%. The Cloverleaf acquisition contributed \$1.6 million of operating profit from the date of acquisition to September 30, 2004. Bronze segment operating profit for fiscal 2004 was \$54.3 million, compared to \$50.4 million for the year ended September 30, 2003. The \$3.9 million increase reflected higher sales, the increase in values of foreign currencies against the U.S. dollar, manufacturing improvements and other cost reduction initiatives. These improvements were partially offset by increases in the cost of bronze ingot as well as a charge for the cost of early retirement and other severance costs. Bronze segment operating profit for fiscal 2003 was positively impacted by a reduction in the segment's finishing cost liability as a result of manufacturing efficiency improvements. Casket segment operating profit for fiscal 2004 was \$14.6 million, compared to \$12.7 million for the year ended September 30, 2003. The increase of \$1.9 million reflected the divestiture of unprofitable distribution and manufacturing operations in fiscal 2003, improvements in manufacturing efficiency and continued reductions in administrative costs, partially offset by the increase in the cost of steel and other metal raw materials and an asset impairment charge. Fiscal 2004 operating profit for the Cremation segment increased to \$1.5 million from \$1.2 million in fiscal 2003. The increase primarily reflected higher sales. Graphics Imaging segment operating profit for the year ended September 30, 2004 was \$19.3 million, compared to \$11.6 million for the prior year, an increase of \$7.7 million, or 66.8%. The increase reflected the acquisition of Reproservice Munich in August 2003 and InTouch in August 2004, the impact of the higher value of the Euro against the U.S. dollar, higher sales by the segment's other European operations and the closure of unprofitable operations in Southern California and North Carolina in fiscal 2003. Marking Products segment operating profit for the year ended September 30, 2004 was \$6.5 million, compared to \$4.1 million for the year ended September 30, 2003. The increase of \$2.4 million, or 59.2%, reflected the acquisition of Holjeron in July 2004, the higher value of the Swedish Krona against the U.S. dollar and higher domestic demand. Higher foreign currency values against the U.S. dollar had a favorable impact of approximately \$3.2 million on the Company's consolidated operating profit for the year ended September 30, 2004 compared to fiscal 2003.

Investment income for the year ended September 30, 2004 was \$1.6 million, compared to \$1.3 million for fiscal 2003. The increase from the prior year primarily reflected higher levels of invested cash.

Interest expense for the year ended September 30, 2004 was \$2.0 million, compared to \$2.9 million in fiscal 2003. The decline in interest expense reflected a lower level of debt during fiscal 2004 combined with a reduction in the average borrowing rate. Other income (deductions), net, for the year ended September 30, 2004 represented a reduction in pre-tax income of \$57,000, compared to \$381,000 for fiscal 2003. Minority interest deduction for fiscal 2004 was \$5.5 million, compared to \$4.8 million for fiscal 2003. The higher minority interest deduction for fiscal 2004 resulted from an increase in operating income in the Company's less than wholly-owned European Graphics Imaging businesses combined with higher foreign currency exchange rates against the U.S. dollar.

The Company's effective tax rate for the year ended September 30, 2004 was 38.8%, which remained unchanged from fiscal 2003. The difference between the Company's effective tax rate and the Federal statutory rate of 35% primarily reflected the impact of state and foreign income taxes.

Special Items:

In July 2003, the Company sold its Graphics Imaging segment facility (which was closed in October 2002) in Southern California for \$3.2 million. The transaction resulted in a pre-tax gain of \$2.6 million, which was recorded in Special Items on the Consolidated Statement of Income. In addition, Special Items for fiscal 2003 also included a pre-tax charge of \$3.6 million for goodwill impairment. The impairment, which was recorded in the fiscal 2003 fourth quarter, related to O.N.E. Color Communications, L.L.C. ("O.N.E."), a domestic Graphics Imaging business.

In fiscal 2003, the Company performed its annual impairment review in the second quarter and determined that no additional adjustments to the carrying values of goodwill were necessary at that time. However, due to the Company's purchase of the remaining 50% interest in O.N.E. and its declining operating results during the second half of fiscal 2003, the Company determined that an impairment review of O.N.E. was necessary as of September 30, 2003. Based on this assessment, the Company recorded a pre-tax charge of \$3.6 million in the fourth quarter of fiscal 2003 for goodwill impairment. In fiscal 2004, the Company reorganized the operations of O.N.E. and integrated it with the larger Graphics Imaging reporting unit for purposes of the annual impairment assessment.

LIQUIDITY AND CAPITAL RESOURCES:

Net cash provided by operating activities was \$73.4 million for the year ended September 30, 2005, compared to \$86.8 million and \$61.9 million for fiscal 2004 and 2003, respectively. Operating cash flow for fiscal 2005 primarily reflected net income adjusted for depreciation and amortization, an increase in minority interest and a tax benefit of \$3.1 million from exercised stock options, partially offset by an increase in working capital items, primarily accounts receivable and inventory. Operating cash flow for fiscal 2004 primarily reflected net income adjusted for depreciation and amortization, an increase in minority interest, a \$1.5 million cash contribution to the Company's principal pension plan, and a tax benefit of \$4.5 million from exercised stock options. Operating cash flow for fiscal 2003 primarily reflected net income adjusted for depreciation, amortization and a goodwill impairment charge, an increase in minority interest, a \$7.5 million cash contribution to the Company's principal pension plan, and a tax benefit of \$5.8 million from exercised stock options. In addition, fiscal 2003 operating cash flow included final payouts to customers under various rebate programs of the Casket segment. Most of these programs were replaced in calendar 2003 with a discount program.

Cash used in investing activities was \$139.0 million for the year ended September 30, 2005, compared to \$82.8 million and \$13.3 million for fiscal years 2004 and 2003, respectively. Investing activities for fiscal 2005 primarily reflected payments (net of cash acquired) of \$109.4 million for acquisitions, capital expenditures of \$28.1 million, net purchases of investments of \$2.6 million and proceeds of \$1.1 million from the sale of assets. Fiscal 2005 acquisitions principally included Milso. Acquisitions also reflected additional consideration to the minority owners of certain European graphics businesses in accordance with acquisition terms (see "Acquisitions"). Investing activities for fiscal 2004 primarily included payments (net of cash acquired) of \$74.5 million in connection with the acquisitions of InTouch, Cloverleaf and Holjeron and capital expenditures of \$10.4 million. Investing activities for fiscal 2003 primarily included capital expenditures of \$9.3 million, which was partially offset by proceeds of \$5.6 million from sales of assets. Fiscal 2003 investing activities also included the acquisitions of Reproservice Munich in August 2003 and the remaining fifty percent interest in O.N.E. on July 31, 2003.

Capital expenditures were \$28.1 million for the year ended September 30, 2005, compared to \$10.4 million and \$9.3 million for fiscal 2004 and 2003, respectively. The increase in capital spending in fiscal 2005 reflected the capital expenditures made in connection with establishment of the casket manufacturing facility in Mexico and the acquisition of

production facilities for the Merchandising Solutions segment and a European graphics business. Capital expenditures in each of the last three fiscal years reflected reinvestment in the Company's business segments and were made primarily for the purchase of new manufacturing machinery, equipment and facilities designed to improve product quality, increase manufacturing efficiency, lower production costs and meet regulatory requirements. Capital expenditures for the last three fiscal years were primarily financed through operating cash. Capital spending for property, plant and equipment has averaged \$15.9 million for the last three fiscal years. The capital budget for fiscal 2006 is \$27.7 million. The Company expects to generate sufficient cash from operations to fund all anticipated capital spending projects.

Cash provided by financing activities for the year ended September 30, 2005 was \$42.3 million, reflecting proceeds, net of repayments, from long-term debt of \$75.7 million, treasury stock purchases of \$27.9 million, proceeds of \$5.9 million from the sale of treasury stock (stock option exercises), dividends of \$5.9 million (\$0.185 per share) to the Company's shareholders and dividends of \$5.5 million to minority interests. Cash used in financing activities for the year ended September 30, 2004 was \$6.7 million, reflecting proceeds, net of repayments, from long-term debt of \$6.4 million, treasury stock purchases of \$14.9 million, proceeds of \$10.6 million from the sale of treasury stock (stock option exercises), dividends of \$5.3 million (\$0.165 per share) to the Company's shareholders and dividends of \$3.5 million to minority interests. Cash used in financing activities for the year ended September 30, 2003 was \$45.2 million, reflecting payments on long-term debt of \$44.0 million, treasury stock purchases of \$6.6 million, dividends of \$3.9 million (\$0.123 per share) to the Company's shareholders and dividends of \$3.5 million to minority interests. These payments were partially offset by proceeds of \$12.8 million from the sale of treasury stock (stock option exercises).

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In February 2005, the facility, which was originally in the amount of \$125.0 million, was amended to increase the borrowing capacity to \$150.0 million. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility, as amended, requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10.0 million) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at September 30, 2005 were \$122.5 million. The weighted-average interest rate on outstanding borrowings at September 30, 2005 and 2004 was 3.80% and 3.08%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50.0 million. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered highly effective. Equal quarterly payments of \$2.5 million plus interest are due on this \$50.0 million borrowing until its maturity in April 2009.

On July 11, 2005, the Company increased its outstanding borrowings under the facility to \$130.0 million. The additional borrowings were used to complete the acquisition of Milso. Effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of \$50.0 million. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered

highly effective. Equal quarterly payments of \$3.3 million plus interest are due on this \$50.0 million borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of \$1.6 million (\$949,000 after tax) at September 30, 2005 that is included in equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at September 30, 2005, approximately \$265,000 of the \$949,000 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

In April 2005, the Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), entered into a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros. At September 30, 2005, outstanding borrowings under the credit facility totaled 8.0 million Euros (\$9.6 million). The weighted-average interest rate on outstanding MIGmbH related borrowings was 2.66% at September 30, 2005.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 9.0 million Euros (\$10.9 million) at September 30, 2005. Caggiati S.p.A. also has four lines of credit totaling approximately 11.3 million Euros (\$13.5 million) with the same Italian banks. Outstanding borrowings on these lines were 2.8 million Euros (\$3.4 million) at September 30, 2005. The weighted-average interest rate on outstanding Caggiati S.p.A. related borrowings was 2.81% at September 30, 2005.

The Company has a stock repurchase program, which was initiated in 1996. As of September 30, 2005, the Company's Board of Directors had authorized the repurchase of a total of 10,000,000 shares of Matthews' common stock under the program, of which 8,621,396 shares had been repurchased as of September 30, 2005. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

Consolidated working capital of the Company was \$86.6 million at September 30, 2005, compared to \$90.9 million and \$89.7 million at September 30, 2004 and 2003, respectively. Working capital at September 30, 2005 reflected higher levels of accounts receivable and inventories, primarily due to the Milso acquisition, an increase in current maturities of debt, and higher levels of current liabilities, also primarily the result of the Milso acquisition. Working capital at September 30, 2004 reflected higher levels of accounts receivable and inventories, primarily due to acquisitions, an increase in current maturities of debt, and higher levels of current liabilities, also primarily the result of acquisitions. Cash and cash equivalents were \$39.6 million at September 30, 2005, compared to \$65.8 million and \$67.0 million at September 30, 2004 and 2003, respectively. The Company's current ratio at September 30, 2005 was 1.6, compared to 1.8 and 2.2 at September 30, 2004 and 2003, respectively.

ENVIRONMENTAL MATTERS:

The Company's operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require the Company to obtain and operate in compliance with conditions of permits and other government authorizations. As such, the Company has developed environmental, health, and safety policies and procedures that include the proper handling, storage and disposal of hazardous materials.

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its

acquisition, The York Group, Inc. ("York") was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, Pennsylvania. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At September 30, 2005, an accrual of \$10.5 million has been recorded for environmental remediation (of which \$860,000 has been classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. Changes in the accrued environmental remediation obligation from the prior fiscal year reflects payments charged against the accrual. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

ACQUISITIONS:

On September 30, 2005, the Company acquired an additional 30% interest in S+T Gesellschaft fur Reprotechnik GmbH ("S+T") for a price of \$8.3 million, which was paid in October 2005. The Company had acquired a 50% interest in S+T in 1998.

In July 2005, the Company acquired Milso, a leading manufacturer and marketer of caskets in the United States. Milso, headquartered in Brooklyn, New York, has manufacturing operations in Richmond, Indiana and maintains distribution centers throughout the Northeast, Mid-Atlantic, Midwest and Southwest regions of the United States. The transaction was structured as an asset purchase, at an initial purchase price of approximately \$95.0 million. The transaction was also structured to include potential additional asset purchase consideration of \$7.5 million contingent on the fiscal 2006 performance of the acquired operations. The Company expects to account for this additional consideration as additional purchase price. The acquisition was intended to expand Matthews' products and services in the United States casket market.

In June 2005, the Company paid additional consideration of \$6.0 million to the minority owner of Rudolf Reproflex GmbH ("Rudolf") under the terms of the original acquisition agreement. The Company had acquired a 75% interest in Rudolf in 2001.

In August 2004, the Company acquired InTouch, a leading provider of reprographic services to the packaging industry in the United Kingdom. InTouch is headquartered in Leeds, England and has operations in London, Portsmouth, Manchester and Boston, Massachusetts. The transaction was structured as a stock purchase, at a cost of approximately \$39.0 million. The acquisition was intended to further the Company's position as a provider of reprographic services to the European packaging industry.

In July 2004, the Company acquired Cloverleaf, a provider of merchandising solutions. Cloverleaf was formed by the merger of iDL, Inc., a provider of merchandising systems and displays, headquartered near Pittsburgh, Pennsylvania, and Big Red Rooster, a marketing and design services organization located in Columbus, Ohio. The transaction was structured as an asset purchase, at a cost of approximately \$34.0 million. The transaction was structured to include potential additional consideration during the next six years contingent on the future growth in value of the acquired operations. The Company expects to account for this additional consideration as additional purchase price. The acquisition was designed to expand the Company's products and services into the merchandising solutions market.

In July 2004, the Company acquired Holjeron, an industrial controls manufacturer located near Portland, Oregon. The acquisition was structured as a stock purchase, at an initial cost of \$1.7 million. In February 2005, additional consideration of \$3.1 million was paid in accordance with the purchase agreement. The acquisition was a part of Matthews' strategy to increase its presence in the marking products industry.

In August 2003, Matthews acquired Reproservice Munich, a German graphics and flexographic printing plate manufacturer located in Munich, Germany. The transaction was structured as a stock purchase, at an acquisition price of \$4.8 million. The combination of Matthews and Reproservice Munich was an important part of the Matthews strategy to increase its European presence in the graphics industry.

Matthews has accounted for these acquisitions using the purchase method and, accordingly, recorded the acquired assets and liabilities at their estimated fair values at the acquisition dates. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill.

DISPOSITIONS:

In July 2003, the Company sold its Graphics Imaging segment facility (which was closed in October 2002) in Southern California for \$3.2 million. The transaction resulted in a pre-tax gain of \$2.6 million, which was recorded in Special Items on the Consolidated Statement of Income.

FORWARD-LOOKING INFORMATION:

The Company's objective with respect to operating performance is to increase annual earnings per share in the range of 12% to 15% over the long term. For the past ten fiscal years, the Company has achieved an average annual increase in earnings per share of 15.7%.

Matthews International Corporation has a three-pronged strategy to attain the annual growth rate objective, which has remained unchanged from the prior year. This strategy consists of the following: internal growth (which includes productivity improvements, new product development and the expansion into new markets with existing products), acquisitions and share repurchases under the Company's stock repurchase program (see "Liquidity and Capital Resources").

The significant factors impacting the Company's fiscal 2005 results were the fiscal 2004 acquisitions of Cloverleaf, InTouch and Holjeron, the recent acquisition of Milso, the favorable impact of foreign currency exchange rate changes, the continued high cost of bronze and steel, and the costs associated with establishing casket manufacturing operations in Mexico. The Company remains concerned with the continued high cost of bronze and steel, and expects that costs of operating the new Mexico facility will continue to exceed revenues from that facility at least through the first quarter of fiscal 2006. In addition, the values of foreign currencies may decline compared to the U.S. dollar in fiscal 2006.

Based on anticipated internal growth, the impact of the Company's recent acquisitions, recent productivity initiatives and the factors discussed above, the Company currently expects to achieve diluted earnings per share in the range of \$2.10 to \$2.15 for the fiscal year ending September 30, 2006.

CRITICAL ACCOUNTING POLICIES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, economic conditions, and in some cases, actuarial techniques. Actual results may differ from those estimates. A discussion of market risks affecting the Company can be found in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of this Annual Report on Form 10-K.

The Company's significant accounting policies are included in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. Management believes that the application of these policies on a consistent basis enables

the Company to provide useful and reliable financial information about the Company's operating results and financial condition. The following accounting policies involve significant estimates, which were considered critical to the preparation of the Company's consolidated financial statements for the year ended September 30, 2005.

Allowance for Doubtful Accounts:

The allowance for doubtful accounts is based on an evaluation of specific customer accounts in which available facts and circumstances indicate collectibility may be a problem. In addition, the allowance includes a general reserve for all customers based on historical collection experience.

Long-Lived Assets:

Property, plant and equipment, goodwill and other intangible assets are carried at cost. Depreciation on property, plant and equipment is computed primarily on the straight-line method over the estimated useful lives of the assets. Goodwill is not amortized, but is subject to periodic review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment, the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives, unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets.

The Company performed its annual impairment reviews in the second quarters of fiscal 2005 and fiscal 2004 and determined that no adjustments to the carrying values of goodwill or other intangibles were necessary at those times. Fiscal 2003 included a pre-tax charge of \$3.6 million for goodwill impairment (see "Special Items").

Pension Costs:

Pension assets and liabilities are determined on an actuarial basis and are affected by the market value of plan assets, estimates of the expected return on plan assets and the discount rate used to determine the present value of benefit obligations. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets, the expected return on plan assets and changes in the selected discount rate will affect the amount of pension cost.

The Company's principal pension plan maintains a substantial portion of its assets in equity securities in accordance with the investment policy established by the Company's pension board. Based on an analysis of the historical performance of the plan's assets and consultation with its independent investment advisor, the Company has maintained the long-term rate of return assumption for these assets at 9.0% for purposes of determining pension cost and funded status under SFAS No. 87, "Employers' Accounting for Pensions." The Company's discount rate assumption used in determining the present value of the projected benefit obligation is based upon published long-term bond indices. The discount rate was reduced from 6.5% in fiscal 2004 and fiscal 2003 to 5.75% in fiscal 2005, reflecting a decline in long-term bond rates.

Environmental Reserve:

Environmental liabilities are recorded when the Company's obligation is probable and reasonably estimable. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value.

Revenue Recognition:

Revenues are generally recognized when title and risk of loss pass to the customer, which is typically at the time of product shipment. For pre-need sales of memorials and vases, revenue is recognized when the memorial has been manufactured to the customer's specifications (e.g., name and birth date), title has been transferred to the customer and the memorial

and vase are placed in storage for future delivery. A liability has been recorded in Estimated Finishing Costs for the estimated costs of finishing pre-need bronze memorials and vases that have been manufactured and placed in storage prior to July 1, 2003 for future delivery.

In July 2003, the Emerging Issues Task Force ("EITF") issued Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables." Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The provisions of Issue No. 00-21 were effective July 1, 2003 and have been applied prospectively by the Company to the finishing and storage elements of its pre-need sales. Beginning July 1, 2003, revenue is deferred by the Company on the portion of pre-need sales attributable to the final finishing and storage of the pre-need merchandise. Deferred revenue for final finishing is recognized at the time the pre-need merchandise is finished and shipped to the customer. Deferred revenue related to storage is recognized on a straight-line basis over the estimated average time that pre-need merchandise is held in storage.

At September 30, 2005, the Company held 352,363 memorials and 247,736 vases in its storage facilities under the pre-need sales program.

Construction revenues are recognized under the percentage-of-completion method of accounting using the cost-to-cost method. The Company offers rebates to certain customers participating in volume purchase programs. Rebates are estimated and recorded as a reduction in sales at the time the Company's products are sold.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS:

The following table summarizes the Company's contractual obligations at September 30, 2005, and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

		Payments due in fiscal year:			
	Total	2006	2007 to 2008	2009 to 2010	After 2010
Contractual Cash Obligations:		(Dollar amounts in thousands)			
Revolving credit facilities	\$132,117	\$23,332	\$46,664	\$62,121	\$ —
Notes payable to banks	10,956	1,257	2,446	2,422	4,831
Short-term borrowings	3,363	3,363	—	—	—
Capital lease obligations	1,237	769	434	34	—
Non-cancelable operating leases	35,474	7,830	12,122	7,285	8,237
Total contractual cash obligations	\$183,147	\$36,551	\$61,666	\$71,862	\$13,068

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the supplemental retirement plan and postretirement benefit plan are funded from the Company's operating cash. The Company does not expect to make any significant contributions to its principal retirement plan in fiscal 2006. The Company estimates that benefit payments to participants under its retirement plans (including its supplemental retirement plan) and postretirement benefit payments will be \$4.4 million and \$1.0 million, respectively, in fiscal 2006. The amounts are not expected to change materially thereafter. The Company believes that its current liquidity sources, combined with its operating cash flow and borrowing capacity, will be sufficient to meet its capital needs for the foreseeable future.

INFLATION:

Except for the significant increases in the cost of bronze ingot and steel during fiscal 2005 and 2004, inflation has not had a material impact on the Company over the past three years nor is it anticipated to have a material impact for the foreseeable future.

ACCOUNTING PRONOUNCEMENTS:

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123 and supercedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission ("SEC") postponed the effective date of SFAS 123R for public companies to the issuer's first fiscal year beginning after June 15, 2005. Accordingly, the Company will adopt SFAS 123R in the first quarter of fiscal 2006.

Under SFAS 123R, the pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. The Company expects to apply a binomial based valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight-line basis over the awards' requisite service period. The Company expects to apply the modified retrospective method, which requires the restatement of prior financial statements so that they include the compensation expense previously reported as pro-forma disclosures.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company does not expect the impact of the adoption of SFAS 123R to differ materially from the current pro forma disclosures of net income and earnings per share under SFAS 123. In addition, the Company currently discloses the fair value of grants of employee stock options over the normal vesting period for all participants. Beginning in fiscal 2006, expense will be recognized immediately for participants eligible for normal retirement, where appropriate under the vesting provisions of the grants to such participants. The financial impact on the expense disclosed for participants eligible for retirement on the date of grant on the periods presented is not expected to be material.

In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). FSP 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes," for recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act"), on a company's income tax expense and deferred tax liabilities. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment, which was October 22, 2004, to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. During fiscal 2005, the Company's Chief Executive Officer and Board of Directors approved a domestic reinvestment program as required by the Jobs Act. The Company repatriated \$13.7 million of dividends in fiscal 2005, on which taxes were provided.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The following discussion about the Company's market risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company has market risk related to changes in interest rates, commodity prices and foreign currency exchange rates. The Company does not generally use derivative financial instruments in connection with these market risks, except as noted below.

Interest Rates – The Company's most significant long-term debt instrument is the domestic Revolving Credit Facility, as amended, which bears interest at variable rates based on LIBOR. In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50.0 million (\$37.5 million outstanding at September 30, 2005). The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. On July 11, 2005 the Company increased its outstanding borrowings under the facility to \$130.0 million, and, effective September 30, 2005, the Company entered into an additional interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of \$50.0 million. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. The fair value of the interest rate swaps reflected an unrealized gain of \$1.6 million (\$949,000 after tax) at September 30, 2005 that is included in equity as part of accumulated other comprehensive income. A decrease of 10% in market interest rates (i.e. a decrease from 3.5% to 3.15%) would result in a decrease of approximately \$520,000 in the fair value of the interest rate swaps.

Commodity Price Risks – In the normal course of business, the Company is exposed to commodity price fluctuations related to the purchases of certain materials and supplies (such as bronze ingot, steel and wood) used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available.

Foreign Currency Exchange Rates – The Company is subject to changes in various foreign currency exchange rates, including the Euro, the British Pound, Canadian dollar, Australian dollar and Swedish Krona, in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of its non-U.S. based subsidiaries. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$16.5 million and a decrease in operating income of \$2.8 million for the year ended September 30, 2005.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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MANAGEMENT'S REPORT TO SHAREHOLDERS

To the Shareholders and Board of Directors of
Matthews International Corporation:

Management's Report on Financial Statements

The accompanying consolidated financial statements of Matthews International Corporation and its subsidiaries (the "Company") were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report on Form 10-K is consistent with that in the financial statements.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting management has conducted an assessment using the criteria in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Milso Industries Corporation ("Milso") has been excluded from management's assessment of internal control over financial reporting as of September 30, 2005, because it was acquired by the Company in a purchase business combination in July 2005. Milso is a wholly-owned subsidiary whose total assets and total sales represent approximately 17% and 3%, respectively, of the related consolidated financial statement amounts of the Company as of and for the year ended September 30, 2005.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of September 30, 2005, based on criteria in *Internal Control – Integrated Framework* issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included as Exhibits 31 and 32 in the Company's Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Matthews International Corporation:

We have completed an integrated audit of Matthews International Corporation's 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Matthews International Corporation and its subsidiaries at September 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of September 30, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Milso Industries Corporation ("Milso") from its assessment of internal control over financial reporting as of September 30, 2005 because it was acquired by the Company in a purchase business combination during 2005. We have also excluded Milso from our audit of internal control over financial reporting. Milso is a wholly-owned subsidiary whose total assets and total sales represent 17% and 3%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2005.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
December 2, 2005

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2005 and 2004

(Dollar amounts in thousands, except per share data)

ASSETS	2005	2004
Current assets:		
Cash and cash equivalents	\$ 39,555	\$ 65,830
Short-term investments	67	858
Accounts receivable, net of allowance for doubtful accounts of \$10,547 and \$7,717, respectively	115,362	87,490
Inventories	71,333	42,536
Deferred income taxes	1,506	1,462
Other current assets	4,310	4,302
Total current assets	232,133	202,478
Investments	11,072	7,694
Property, plant and equipment, net	88,867	72,714
Deferred income taxes	17,027	9,615
Other assets	5,899	16,745
Goodwill	260,672	189,016
Other intangible assets, net of accumulated amortization of \$2,918 and \$1,135, respectively	46,397	32,280
Total assets	\$662,067	\$530,542

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, continued
September 30, 2005 and 2004

(Dollar amounts in thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' EQUITY	2005	2004
Current liabilities:		
Long-term debt, current maturities	\$ 28,721	\$ 17,003
Trade accounts payable	43,524	26,130
Accrued compensation	32,858	31,274
Accrued income taxes	11,640	13,018
Other current liabilities	28,834	24,147
Total current liabilities	145,577	111,572
Long-term debt	118,952	54,389
Estimated finishing costs	4,733	4,730
Postretirement benefits other than pensions	17,435	17,407
Deferred income taxes	7,589	4,225
Environmental reserve	9,607	10,604
Other liabilities and deferred revenue	23,813	15,365
Commitments and contingent liabilities		
Shareholders' equity:		
Class A common stock, \$1.00 par value; authorized 70,000,000 shares; 36,333,992 shares issued	36,334	36,334
Preferred stock, \$100 par value, authorized 10,000 shares, none issued	—	—
Additional paid-in capital	14,113	11,699
Retained earnings	362,334	308,435
Accumulated other comprehensive income	(1,359)	11,538
Treasury stock, 4,307,300 and 3,923,418 shares, respectively, at cost	(77,061)	(55,756)
Total shareholders' equity	334,361	312,250
Total liabilities and shareholders' equity	\$662,067	\$530,542

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

for the years ended September 30, 2005, 2004 and 2003

(Dollar amounts in thousands, except per share data)

	2005	2004	2003
Sales	\$639,822	\$508,801	\$458,865
Cost of sales	(416,747)	(315,047)	(288,563)
Gross profit	223,075	193,754	170,302
Selling expense	(59,484)	(46,999)	(43,334)
Administrative expense	(62,304)	(48,961)	(45,840)
Special items	—	—	(1,044)
Operating profit	101,287	97,794	80,084
Investment income	1,726	1,612	1,283
Interest expense	(2,966)	(1,998)	(2,852)
Other income (deductions), net	1,658	(57)	(381)
Minority interest	(5,775)	(5,518)	(4,780)
Income before income taxes	95,930	91,833	73,354
Income taxes	(36,106)	(35,638)	(28,461)
Net income	\$ 59,824	\$ 56,195	\$ 44,893
Earnings per share:			
Basic	\$1.86	\$1.74	\$1.42
Diluted	\$1.84	\$1.72	\$1.39

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended September 30, 2005, 2004 and 2003

(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (net of tax)	Treasury Stock	Total
Balance, September 30, 2002	\$36,334	\$ 2,119	\$216,569	\$(15,216)	\$(58,431)	\$181,375
Net income	—	—	44,893	—	—	44,893
Unrealized gains (losses)	—	—	—	(17)	—	(17)
Minimum pension liability	—	—	—	10,011	—	10,011
Translation adjustment	—	—	—	11,865	—	11,865
Total comprehensive income						66,752
Treasury stock transactions:						
Purchase of 256,468 shares	—	—	—	—	(6,623)	(6,623)
Issuance of 1,251,111 shares under stock plans	—	4,357	—	—	14,270	18,627
Dividends, \$.123 per share	—	—	(3,903)	—	—	(3,903)
Balance, September 30, 2003	36,334	6,476	257,559	6,643	(50,784)	256,228
Net income	—	—	56,195	—	—	56,195
Unrealized gains (losses)	—	—	—	(37)	—	(37)
Minimum pension liability	—	—	—	(737)	—	(737)
Translation adjustment	—	—	—	5,360	—	5,360
Fair value of derivative	—	—	—	309	—	309
Total comprehensive income						61,090
Treasury stock transactions:						
Purchase of 497,736 shares	—	—	—	—	(14,894)	(14,894)
Issuance of 746,261 shares under stock plans	—	5,223	—	—	9,922	15,145
Dividends, \$.165 per share	—	—	(5,319)	—	—	(5,319)
Balance, September 30, 2004	36,334	11,699	308,435	11,538	(55,756)	312,250
Net income	—	—	59,824	—	—	59,824
Unrealized gains (losses)	—	—	—	(28)	—	(28)
Minimum pension liability	—	—	—	(9,833)	—	(9,833)
Translation adjustment	—	—	—	(3,676)	—	(3,676)
Fair value of derivatives	—	—	—	640	—	640
Total comprehensive income						46,927
Treasury stock transactions:						
Purchase of 792,728 shares	—	—	—	—	(27,933)	(27,933)
Issuance of 408,846 shares under stock plans	—	2,414	—	—	6,628	9,042
Dividends, \$.185 per share	—	—	(5,925)	—	—	(5,925)
Balance, September 30, 2005	\$36,334	\$14,113	\$362,334	\$(1,359)	\$(77,061)	\$334,361

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended September 30, 2005, 2004 and 2003

(Dollar amounts in thousands, except per share data)

	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 59,824	\$ 56,195	\$ 44,893
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,893	15,628	14,872
Minority interest	5,775	5,518	4,780
Change in deferred taxes	1,802	1,015	5,128
Impairment charges	—	1,028	3,840
Net (gain) loss on dispositions of assets	(200)	35	(2,504)
Net loss on investments	—	—	55
Changes in working capital items	(19,673)	1,936	(12,460)
(Increase) decrease in other assets	(3,644)	3,724	5,594
Increase (decrease) in estimated finishing costs	3	(133)	(1,948)
Increase (decrease) in other liabilities	6,422	(2,464)	(5,877)
Increase (decrease) in postretirement benefits	76	(203)	(263)
Tax benefit on exercised stock options	3,148	4,517	5,832
Net cash provided by operating activities	73,426	86,796	61,942
Cash flows from investing activities:			
Capital expenditures	(28,066)	(10,403)	(9,280)
Proceeds from dispositions of assets	1,099	1,484	5,572
Acquisitions, net of cash acquired	(109,352)	(74,487)	(9,455)
Purchases of investment securities	(11,758)	(15,260)	(185)
Proceeds from dispositions of investments	9,119	15,829	21
Net cash used in investing activities	(138,958)	(82,837)	(13,327)
Cash flows from financing activities:			
Proceeds from long-term debt	103,587	55,478	—
Payments on long-term debt	(27,851)	(49,050)	(43,993)
Proceeds from the sale of treasury stock	5,894	10,629	12,795
Purchases of treasury stock	(27,933)	(14,894)	(6,623)
Dividends	(5,925)	(5,319)	(3,903)
Dividends to minority interests	(5,507)	(3,524)	(3,456)
Net cash provided by (used in) financing activities	42,265	(6,680)	(45,180)
Effect of exchange rate changes on cash	(3,008)	1,597	6,418
Net change in cash and cash equivalents	(26,275)	(1,124)	9,853
Cash and cash equivalents at beginning of year	65,830	66,954	57,101
Cash and cash equivalents at end of year	\$39,555	\$65,830	\$66,954
Cash paid during the year for:			
Interest	\$ 2,692	\$ 1,823	\$ 3,007
Income taxes	32,125	11,200	20,902

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

1. NATURE OF OPERATIONS:

Matthews International Corporation ("Matthews"), founded in 1850 and incorporated in Pennsylvania in 1902, is a designer, manufacturer and marketer principally of memorialization products and brand solutions. Memorialization products consist primarily of bronze memorials and memorialization products, caskets and cremation equipment for the cemetery and funeral home industries. Brand solutions include graphics imaging products and services, merchandising solutions, and marking products. The Company's products and operations are comprised of six business segments: Bronze, Casket, Cremation, Graphics Imaging, Marking Products and, as of July 19, 2004, Merchandising Solutions. The Bronze segment is a leading manufacturer of cast bronze memorials and other memorialization products, cast and etched architectural products and is a leading builder of mausoleums in the United States. The Casket segment is a leading casket manufacturer in the United States and produces a wide variety of wood and metal caskets. The Cremation segment is a leading designer and manufacturer of cremation equipment and cremation caskets primarily in North America. The Graphics Imaging segment manufactures and provides printing plates, pre-press services and imaging services for the corrugated and primary packaging industries. The Marking Products segment designs, manufactures and distributes a wide range of marking and coding equipment and consumables, and industrial automation products for identifying, tracking and conveying various consumer and industrial products, components and packaging containers. The Merchandising Solutions segment designs and manufactures merchandising displays and systems and provides creative merchandising and marketing solutions services.

The Company has manufacturing and marketing facilities in the United States, Canada, Mexico, Australia, and Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. All intercompany accounts and transactions have been eliminated.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency:

Balance sheet accounts for foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the consolidated balance sheet date. Gains or losses that result from this process are recorded in other comprehensive income. The revenue and expense accounts of foreign subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period.

(Dollar amounts in thousands, except per share data)

Cash and Cash Equivalents:

For purposes of the consolidated statement of cash flows, the Company considers all investments purchased with a remaining maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments.

Allowance for Doubtful Accounts:

The allowance for doubtful accounts is based on an evaluation of specific customer accounts in which available facts and circumstances indicate collectibility may be a problem. In addition, the allowance includes a general reserve for all customers based on historical collection experience.

Inventories:

Inventories are stated at the lower of cost or market with cost generally determined under the average cost method.

Property, Plant and Equipment:

Property, plant and equipment are carried at cost. Depreciation is computed primarily on the straight-line method over the estimated useful lives of the assets, which generally range from 10 to 45 years for buildings and 3 to 12 years for machinery and equipment. Gains or losses from the disposition of assets are reflected in operating profit. The cost of maintenance and repairs is charged against income as incurred. Renewals and betterments of a nature considered to extend the useful lives of the assets are capitalized.

Goodwill and Other Intangible Assets:

Goodwill is not amortized but is subject to annual review for impairment. Intangible assets are amortized over their estimated useful lives, ranging from 2 to 20 years, unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets.

Environmental:

Costs that mitigate or prevent future environmental issues or extend the life or improve equipment utilized in current operations are capitalized and depreciated on a straight-line basis over the estimated useful lives of the related assets. Costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company's obligation is probable and reasonably estimable. Accruals for losses from environmental remediation obligations do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value.

Treasury Stock:

Treasury stock is carried at cost. The cost of treasury shares sold is determined under the average cost method.

Income Taxes:

Deferred tax assets and liabilities are provided for the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income taxes for U.S. tax purposes have not been provided on certain undistributed earnings of foreign subsidiaries, as such earnings are considered to be reinvested indefinitely. To the extent earnings are expected to be returned in the foreseeable future, the associated deferred tax liabilities are provided.

(Dollar amounts in thousands, except per share data)

Revenue Recognition:

Revenues are generally recognized when title and risk of loss pass to the customer, which is typically at the time of product shipment. For pre-need sales of memorials and vases, revenue is recognized when the memorial has been manufactured to the customer's specifications (e.g., name and birth date), title has been transferred to the customer and the memorial and vase are placed in storage for future delivery. A liability has been recorded in Estimated Finishing Costs for the estimated costs of finishing pre-need bronze memorials and vases that have been manufactured and placed in storage prior to July 1, 2003 for future delivery.

In July 2003, the Emerging Issues Task Force ("EITF") issued Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables." Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The provisions of Issue No. 00-21 were effective July 1, 2003 and have been applied prospectively by the Company to the finishing and storage elements of its pre-need sales. Beginning July 1, 2003, revenue is deferred by the Company on the portion of pre-need sales attributable to the final finishing and storage of the pre-need merchandise. Deferred revenue for final finishing is recognized at the time the pre-need merchandise is finished and shipped to the customer. Deferred revenue related to storage is recognized on a straight-line basis over the estimated average time that pre-need merchandise is held in storage.

At September 30, 2005, the Company held 352,363 memorials and 247,736 vases in its storage facilities under the pre-need sales program.

Construction revenues are recognized under the percentage-of-completion method of accounting using the cost-to-cost method. The Company offers rebates to certain customers participating in volume purchase programs. Rebates are estimated and recorded as a reduction in sales at the time the Company's products are sold.

Derivatives and Hedging:

Derivatives are held as part of a formal documented hedging program. All derivatives are straight forward and held for purposes other than trading. Matthews measures effectiveness by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the fair value or future cash flows of the hedged item. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains and losses on the derivative will be recorded in other income (deductions) at that time.

Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income, net of tax and are reclassified to earnings in a manner consistent with the underlying hedged item. The cash flows from derivative activities are recognized in the statement of cash flows in a manner consistent with the underlying hedged item.

Research and Development Expenses:

Research and development costs are expensed as incurred and approximated \$3,300, \$3,000 and \$4,200 for the years ended September 30, 2005, 2004 and 2003, respectively.

Earnings Per Share:

Basic earnings per share is computed by dividing net income by the average number of common shares outstanding. Diluted earnings per share is computed using the treasury stock method, which assumes the issuance of common stock for all dilutive securities.

(Dollar amounts in thousands, except per share data)

Reclassifications:

Certain reclassifications have been made in the Consolidated Statements of Cash Flows for prior years to conform to the current period presentation.

Stock Plan:

The Company has accounted for its stock-based compensation plans in accordance with the intrinsic value provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"). Accordingly, the Company did not record any compensation expense in the consolidated financial statements for its stock-based compensation plans. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", the following table illustrates the effect on net income and diluted earnings per share had compensation expense been recognized consistent with the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

	2005	2004	2003
Net income, as reported	\$59,824	\$56,195	\$44,893
Net income, pro forma	58,071	54,533	43,504
Earnings per share, as reported	\$1.84	\$1.72	\$1.39
Earnings per share, pro forma	1.79	1.68	1.35

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123 and supercedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission ("SEC") postponed the effective date of SFAS 123R for public companies to the issuer's first fiscal year beginning after June 15, 2005. Accordingly, the Company will adopt SFAS 123R in the first quarter of fiscal 2006.

Under SFAS 123R, the pro-forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. The Company expects to apply a binomial based valuation model in determining the fair value of share-based payments to employees, which will then be amortized on a straight-line basis over the awards' requisite service period. The Company expects to apply the modified retrospective method, which requires the restatement of prior financial statements so that they include the compensation expense previously reported as pro-forma disclosures.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company does not expect the impact of the adoption of SFAS 123R to differ materially from the current pro forma disclosures of net income and earnings per share under SFAS 123. In addition, the Company currently discloses the fair value of grants of employee stock options over the normal vesting period for all participants. Beginning in fiscal 2006, expense will be recognized immediately for participants eligible for normal retirement, where appropriate under the vesting provisions of the grants to such participants. The financial impact on the expense disclosed for participants eligible for retirement on the date of grant on the periods presented is not expected to be material.

The weighted-average fair value of options granted was \$11.61 per share in 2005, \$9.33 per share in 2004 and \$7.19 per share in 2003.

(Dollar amounts in thousands, except per share data)

The fair value of each option grant is estimated on the date of grant using a Black-Scholes based pricing model with the following assumptions:

	2005	2004	2003
Expected volatility	23.2%	24.2%	24.4%
Dividend yield	1.0%	1.0%	1.0%
Average risk-free interest rate	4.3%	3.9%	3.8%
Average expected term (years)	7.9	7.9	8.0

3. INVENTORIES:

Inventories at September 30 consisted of the following:

	2005	2004
Materials and finished goods	\$64,711	\$38,395
Labor and overhead in process	6,622	4,141
	<u>\$71,333</u>	<u>\$42,536</u>

4. INVESTMENTS:

Investment securities are recorded at estimated market value at the consolidated balance sheet date and, except for investments held in a non-revocable trust established to fund benefit payments under the Company's supplemental retirement plan, are classified as available-for-sale. Short-term investments consisted principally of corporate obligations with purchased maturities of over three months but less than one year. The cost of short-term investments approximated market value at September 30, 2005 and 2004. Investments classified as non-current and available for sale consisted of securities of the U.S. government and its agencies and corporate obligations with purchased maturities in the range of one to five years. Accrued interest on these non-current investment securities was classified with short-term investments.

At September 30, 2005 and 2004, non-current investments classified as available for sale were as follows:

	Book Value (Amortized Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
September 30, 2005:				
U.S. government and its agencies	\$ 549	\$—	\$ (1)	\$ 548
Corporate obligations	4,247	—	—	4,247
Other	40	—	—	40
Total	<u>\$4,836</u>	<u>\$—</u>	<u>\$ (1)</u>	<u>\$4,835</u>
September 30, 2004:				
U.S. government and its agencies	\$ 586	\$—	\$(16)	\$ 570
Corporate obligations	5,552	29	—	5,581
Other	47	—	—	47
Total	<u>\$6,185</u>	<u>\$29</u>	<u>\$(16)</u>	<u>\$6,198</u>

(Dollar amounts in thousands, except per share data)

Unrealized gains and losses on investment securities, including related deferred taxes, are reflected in accumulated other comprehensive income. Realized gains and losses are based on the specific identification method and are recorded in investment income. Realized gains (losses) for fiscal 2005, 2004 and 2003 were not material. Bond premiums and discounts are amortized on the straight-line method, which does not significantly differ from the interest method.

In addition, investments included the Company's 49% ownership interest in Applied Technology Developments, Ltd. ("ATD"), which was \$647 at September 30, 2005 and 2004. The investment in ATD is recorded under the equity method of accounting. Income under the equity method of accounting is recorded in investment income. Investments also included ownership interests in various entities of less than 20%, which totaled \$1,193 and \$849 at September 30, 2005 and 2004, respectively. Investments of less than 20% ownership interest are recorded under the cost method of accounting.

The investments balance at September 30, 2005 also included various mutual funds valued at \$4,397 held in a non-revocable trust established to fund benefit payments under the Company's supplemental retirement plan.

5. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment and the related accumulated depreciation at September 30, 2005 and 2004 were as follows:

	2005	2004
Buildings	\$ 44,745	\$ 35,810
Machinery and equipment	128,362	116,598
	173,107	152,408
Less accumulated depreciation	(97,365)	(85,222)
	75,742	67,186
Land	4,679	4,802
Construction in progress	8,446	726
	\$ 88,867	\$ 72,714

6. LONG-TERM DEBT:

Long-term debt at September 30, 2005 and 2004 consisted of the following:

	2005	2004
Revolving credit facilities	\$132,117	\$52,500
Notes payable to banks	10,956	14,275
Short-term borrowings	3,363	3,437
Capital lease obligations	1,237	1,180
	147,673	71,392
Less current maturities	(28,721)	(17,003)
	\$118,952	\$54,389

(Dollar amounts in thousands, except per share data)

The Company has a domestic Revolving Credit Facility with a syndicate of financial institutions. In February 2005, the facility, which was originally in the amount of \$125,000, was amended to increase the borrowing capacity to \$150,000. Borrowings under the amended facility, which is scheduled to mature on April 30, 2009, bear interest at LIBOR plus a factor ranging from .50% to 1.00% based on the Company's leverage ratio. The leverage ratio is defined as net indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization). The Company is required to pay an annual commitment fee ranging from .20% to .30% (based on the Company's leverage ratio) of the unused portion of the facility. The Revolving Credit Facility, as amended, requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed \$10,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the Revolving Credit Facility at September 30, 2005 and 2004 were \$122,500 and \$52,500, respectively. The weighted-average interest rate on outstanding borrowings at September 30, 2005 and 2004 was 3.80% and 3.08%, respectively.

In April 2004, the Company entered into an interest rate swap that fixed, for a five-year period, the interest rate on borrowings in an initial amount of \$50,000. The interest rate was fixed at 2.66% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge matched the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges were considered effective. Equal quarterly principal payments of \$2,500 plus interest are due on this borrowing until its maturity in April 2009.

In July 2005, the Company increased its outstanding borrowings under the Revolving Credit Facility to \$130,000. The additional borrowings were used to complete the acquisition of Milso Industries ("Milso"). Effective September 30, 2005, the Company entered into an interest rate swap that fixed, for the period through the maturity of the Revolving Credit Facility, the interest rate on additional borrowings in an initial amount of \$50,000. The interest rate was fixed at 4.14% plus a factor based on the Company's leverage ratio (the factor was .50% at September 30, 2005). The interest rate swap was designated as a cash flow hedge of the future variable interest payments under the Revolving Credit Facility, which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of the hedge match the underlying terms of the hedged debt and related forecasted interest payments and as such, these hedges are considered effective. Equal quarterly principal payments of \$3,333 plus interest are due on this \$50,000 portion of the borrowing until its maturity in April 2009.

The fair value of the interest rate swaps reflected an unrealized gain of \$1,557 (\$949 after tax) at September 30, 2005 that is included in shareholders' equity as part of accumulated other comprehensive income. Assuming market rates remain constant with the rates at September 30, 2005, approximately \$265 of the \$949 gain included in accumulated other comprehensive income is expected to be recognized in earnings as an adjustment to interest expense over the next twelve months.

In April 2005, the Company, through its wholly-owned subsidiary, Matthews International GmbH ("MIGmbH"), entered into a credit facility with National Westminster Bank Plc for borrowings up to 10.0 million Euros. At September 30, 2005, outstanding borrowings under the credit facility totaled 8.0 million Euros (\$9,617). The weighted-average interest rate on outstanding borrowings of MIGmbH was 2.66% at September 30, 2005.

The Company, through its wholly-owned subsidiary, Caggiati S.p.A., has several loans with various Italian banks. Outstanding borrowings on these loans totaled 9.0 million Euros (\$10,900) and 11.5 million Euros (\$14,300) at September 30, 2005 and 2004, respectively. Caggiati S.p.A. also has four lines of credit totaling 11.3 million Euros (\$13,500) with the same Italian banks. Outstanding borrowings on these lines were 2.8 million Euros (\$3,400) and 2.8 million Euros (\$3,400) at September 30, 2005 and 2004, respectively. The weighted-average interest rate on outstanding borrowings of Caggiati S.p.A. at September 30, 2005 and 2004 was 2.81% and 3.6%, respectively.

(Dollar amounts in thousands, except per share data)

Aggregate maturities of long-term debt, including short-term borrowings and capital leases, follows:

2006	\$ 28,721
2007	24,933
2008	24,611
2009	63,361
2010	1,216
Thereafter	4,831
	<u>\$147,673</u>

The carrying amounts of the Company's borrowings under its financing arrangements approximated their fair value.

7. SHAREHOLDERS' EQUITY:

The authorized common stock of the Company consists of 70,000,000 shares of Class A Common Stock, \$1 par value.

The Company has a stock repurchase program, which was initiated in 1996. Under the program, the Company's Board of Directors has authorized the repurchase of a total of 10,000,000 shares of Matthews' common stock, of which 8,621,396 shares have been repurchased as of September 30, 2005. The buy-back program is designed to increase shareholder value, enlarge the Company's holdings of its common stock, and add to earnings per share. Repurchased shares may be retained in treasury, utilized for acquisitions, or reissued to employees or other purchasers, subject to the restrictions of the Company's Restated Articles of Incorporation.

Comprehensive income consists of net income adjusted for changes, net of any related income tax effect, in cumulative foreign currency translation, the fair value of derivatives, unrealized investment gains and losses and minimum pension liability.

Accumulated other comprehensive income at September 30, 2005 and 2004 consisted of the following:

	2005	2004
Cumulative foreign currency translation	\$ 8,293	\$11,969
Fair value of derivatives, net of tax	949	309
Unrealized investment gains (losses), net of tax	—	28
Minimum pension liability, net of tax	(10,601)	(768)
	<u>\$ (1,359)</u>	<u>\$11,538</u>

8. STOCK PLANS:

The Company has a stock incentive plan that provides for grants of incentive stock options, non-statutory stock options and restricted share awards in an aggregate number not to exceed 15% of the outstanding shares of the Company's common stock. The plan is administered by the Compensation Committee of the Board of Directors. The option price for each stock option that may be granted under the plan may not be less than the fair market value of the Company's common stock on the date of grant. The aggregate number of shares of the Company's common stock that may be issued upon exercise of stock options was 4,804,004 shares at September 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

Outstanding stock options are exercisable in various share amounts based on the attainment of certain market value levels of Class A Common Stock but, in the absence of such events, are exercisable in full for a one-week period beginning five years from the date of grant. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the certain market value levels described above). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death.

The transactions for shares under options were as follows:

	2005	2004	2003
Outstanding, beginning of year:			
Number	2,073,497	2,455,572	3,216,433
Weighted-average exercise price	\$20.99	\$17.28	\$13.77
Granted:			
Number	453,200	518,050	607,525
Weighted-average exercise price	\$35.99	\$28.58	\$21.81
Exercised:			
Number	407,107	733,711	1,245,239
Weighted-average exercise price	\$14.44	\$13.85	\$10.28
Expired or forfeited:			
Number	28,983	166,414	123,147
Weighted-average exercise price	\$22.55	\$21.30	\$18.68
Outstanding, end of year:			
Number	2,090,607	2,073,497	2,455,572
Weighted-average exercise price	\$25.50	\$20.99	\$17.28
Exercisable, end of year:			
Number	342,066	436,153	561,135
Weighted-average exercise price	\$16.57	\$13.16	\$12.53
Shares reserved for future options, end of year	2,713,397	2,788,089	2,368,735

The following tables summarize certain stock option information at September 30, 2005:

Options outstanding:

Range of exercise price	Number	Weighted-average remaining life	Weighted-average exercise price
\$7.03	11,334	1.2	\$ 7.03
\$10.70	11,000	2.2	10.70
\$13.84 and \$15.34	16,167	3.2	14.31
\$12.84 and \$13.98	145,017	3.8	13.41
\$14.03	156,903	5.1	14.03
\$24.37	342,961	6.3	24.37
\$21.81	470,275	7.2	21.81
\$28.58	486,300	8.2	28.58
\$36.03 and \$35.33	450,650	9.1	35.99
	2,090,607	7.2	\$25.50

(Dollar amounts in thousands, except per share data)

Options exercisable:

Range of exercise price	Number	Weighted-average exercise price
\$7.03	11,334	\$ 7.03
\$10.70	11,000	10.70
\$13.84 and \$15.34	16,167	14.31
\$12.84 and \$13.98	145,017	13.41
\$14.03	54,966	14.03
\$24.37	103,582	24.37
	342,066	\$16.57

Under the Company's Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$30. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. Shares deferred under the Director Fee Plan at September 30, 2005, 2004 and 2003 were 51,313, 50,064 and 58,900, respectively. Additionally, beginning in fiscal 2005, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$40. During the year ended September 30, 2005, such directors were granted a total of 17,500 stock options, all of which were outstanding and unvested at September 30, 2005. A total of 500,000 shares have been authorized to be issued under the Director Fee Plan.

9. EARNINGS PER SHARE:

	2005	2004	2003
Net income	\$59,824	\$56,195	\$44,893
Weighted-average common shares outstanding	32,116,012	32,216,753	31,685,756
Dilutive securities, primarily stock options	409,017	471,890	628,940
Diluted weighted-average common shares outstanding	32,525,029	32,688,643	32,314,696
Basic earnings per share	\$1.86	\$1.74	\$1.42
Diluted earnings per share	\$1.84	\$1.72	\$1.39

(Dollar amounts in thousands, except per share data)

10. PENSION AND OTHER POSTRETIREMENT PLANS:

The Company provides defined benefit pension and other postretirement plans to certain employees. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Pension		Other Postretirement	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation, beginning	\$89,077	\$79,702	\$18,690	\$16,949
Acquisitions	—	5,675	—	—
Service cost	3,707	3,694	505	395
Interest cost	5,615	5,118	1,173	1,049
Assumption changes	9,830	(154)	1,277	568
Actuarial (gain) loss	2,569	(1,164)	1,231	535
Benefit payments	(4,446)	(3,794)	(808)	(806)
Benefit obligation, ending	106,352	89,077	22,068	18,690
Change in plan assets:				
Fair value, beginning	74,115	68,182	—	—
Acquisitions	—	4,274	—	—
Actual return	9,470	3,549	—	—
Benefit payments	(4,446)	(3,794)	(808)	(806)
Employer contributions	776	1,904	808	806
Fair value, ending	79,915	74,115	—	—
Funded status	(26,437)	(14,962)	(22,068)	(18,690)
Unrecognized actuarial loss	30,979	23,133	10,168	8,154
Unrecognized prior service cost	(221)	(176)	(6,790)	(8,078)
Net amount recognized	\$4,321	\$7,995	\$(18,690)	\$(18,614)
Amounts recognized in the balance sheet:				
Prepaid pension cost	\$ —	\$13,178	\$ —	\$ —
Accrued benefit liability	(13,063)	(6,455)	(18,690)	(18,614)
Accumulated other comprehensive income	17,384	1,272	—	—
Net amount recognized	\$4,321	\$7,995	\$(18,690)	\$(18,614)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

The Company has a supplemental retirement plan which had a benefit obligation at September 30, 2005 and 2004 of \$4,986 and \$4,591, respectively. Although the Company has established a non-revocable trust to fund benefit payments under this defined benefit pension plan (see Note 4), the plan is considered unfunded under SFAS No. 87, "Employers' Accounting for Pensions." In accordance with SFAS No. 87, the Company recorded an obligation at September 30, 2005 and 2004 for the under funded status of the pension plans, principally through a charge to accumulated other comprehensive income.

Net periodic pension and other postretirement benefit cost (income) for the plans included the following:

	Pension			Other Postretirement		
	2005	2004	2003	2005	2004	2003
Service cost	\$3,707	\$3,694	\$3,036	\$ 506	\$ 395	\$ 289
Interest cost	5,615	5,118	4,830	1,173	1,049	1,058
Expected return on plan assets	(6,333)	(5,978)	(4,617)	—	—	—
Amortization:						
Prior service cost	83	80	111	(1,288)	(1,287)	(1,288)
Net actuarial loss	1,378	1,204	1,253	493	446	495
Net benefit cost	\$4,450	\$4,118	\$4,613	\$ 884	\$ 603	\$ 554

Benefit payments under the Company's principal retirement plan are made from plan assets, while benefit payments under the postretirement benefit plan are made from the Company's operating funds. Under IRS regulations, the Company was not required to make any contributions to its principal retirement plan in fiscal year 2005. Contributions of \$776 and \$808 were made under the Company's retirement plans and postretirement plan, respectively, in fiscal 2005.

The measurement date of annual actuarial valuations for the Company's principal retirement and other postretirement benefit plans is July 31, and the weighted-average assumptions for those plans were:

	Pension			Other Postretirement		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75%	6.50%	6.50%	5.75%	6.50%	6.50%
Return on plan assets	9.00	9.00	9.00	—	—	—
Compensation increase	4.25	4.25	4.25	—	—	—

The Company's principal pension plan maintains a substantial portion of its assets in equity securities in accordance with the investment policy established by the Company's pension board. Based on an analysis of the historical performance of the plan's assets and consultation with its independent investment advisor, the Company has maintained the long-term rate of return assumption for these assets at 9.0% for purposes of determining pension cost and funded status under SFAS No. 87. The Company's discount rate assumption used in determining the present value of the projected benefit obligation is based upon published long-term bond indices. The discount rate was reduced from 6.5% in fiscal 2004 and fiscal 2003 to 5.75% in fiscal 2005, reflecting a decline in long-term bond rates.

For measurement purposes, rates of increase of 10.4% and 12.0% in the per capita cost of health care benefits for those under 65 years of age and those over 65 years of age, respectively, were assumed for 2005; the rates were assumed to decrease gradually to 5.0% for 2014 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported. An increase in the assumed health care cost trend rates by one percentage

(Dollar amounts in thousands, except per share data)

point would have increased the accumulated postretirement benefit obligation as of September 30, 2005 by \$1,168 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$130. A decrease in the assumed health care cost trend rates by one percentage point would have decreased the accumulated postretirement benefit obligation as of September 30, 2005 by \$1,021 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$112.

11. INCOME TAXES:

The provision for income taxes consisted of the following:

	2005	2004	2003
Current:			
Federal	\$26,346	\$23,503	\$14,867
State	2,953	2,559	2,477
Foreign	5,005	8,533	5,606
	34,304	34,595	22,950
Deferred	1,802	1,043	5,511
Total	\$36,106	\$35,638	\$28,461

The components of the net deferred tax asset at September 30 were as follows:

	2005	2004
Deferred tax assets:		
Postretirement benefits	\$ 7,289	\$ 7,259
Environmental reserve	4,009	4,423
Pension costs	4,303	—
Bad debt reserve	2,571	3,100
Deferred compensation	2,886	3,125
Impairments/other provisions	1,941	1,319
Estimated finishing costs	1,599	1,601
Accrued vacation pay	1,357	1,259
Accrued rebates	235	500
Other	3,370	2,022
	29,560	24,608
Deferred tax liabilities:		
Depreciation	(6,119)	(8,187)
Pension costs	—	(3,427)
Goodwill amortization	(11,890)	(5,926)
Unrealized investment gain	(607)	(216)
	(18,616)	(17,756)
Net deferred tax asset	10,944	6,852
Less current portion	(1,506)	(1,462)
	\$ 9,438	\$ 5,390

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

The components of the provision for deferred income taxes were as follows:

	2005	2004	2003
Postretirement benefits	\$ (30)	\$ 163	\$ 102
Environmental reserve	414	235	162
Bad debt reserve	529	(412)	853
Deferred compensation	239	(550)	563
Pension costs	(1,445)	(863)	1,370
Impairments/other provisions	(622)	1,364	(330)
Estimated finishing costs	2	43	660
Accrued vacation pay	(98)	147	40
Accrued rebates	265	(10)	378
Depreciation	(2,068)	605	264
Goodwill amortization	5,964	556	1,151
Other	(1,348)	(235)	298
	<u>\$1,802</u>	<u>\$1,043</u>	<u>\$5,511</u>

The reconciliation of the federal statutory tax rate to the consolidated effective tax rate was as follows:

	2005	2004	2003
Federal statutory tax rate	35.0%	35.0%	35.0%
Effect of state income taxes, net of federal deduction	1.8	1.9	2.8
Foreign taxes in excess of federal statutory rate	.5	1.5	.6
Tax on repatriated earnings	.7	.0	.2
Other	(.4)	.4	.2
Effective tax rate	<u>37.6%</u>	<u>38.8%</u>	<u>38.8%</u>

The Company's foreign subsidiaries had income before income taxes for the years ended September 30, 2005, 2004 and 2003 of approximately \$24,600, \$23,300 and \$16,300, respectively. At September 30, 2005, undistributed earnings of foreign subsidiaries for which deferred U.S. income taxes have not been provided approximated \$45,750. During fiscal 2005, the Company's Chief Executive Officer and Board of Directors approved a domestic reinvestment program as required by the American Jobs Creation Act of 2004. The Company repatriated \$13,700 of dividends in fiscal 2005, on which taxes were provided in accordance with FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004".

12. COMMITMENTS AND CONTINGENT LIABILITIES:

The Company operates various production, warehouse and office facilities and equipment under operating lease agreements. Annual rentals under these and other operating leases were \$10,950, \$7,000 and \$6,000 in 2005, 2004 and 2003, respectively. Future minimum rental commitments under non-cancelable operating lease arrangements for fiscal years 2006 through 2010 are \$7,830, \$6,382, \$5,740, \$4,144 and \$3,141, respectively, and \$8,237 thereafter.

(Dollar amounts in thousands, except per share data)

The Company is party to various legal proceedings, the eventual outcome of which are not predictable. Although the ultimate disposition of these proceedings is not presently determinable, management is of the opinion that they should not result in liabilities in an amount which would materially affect the Company's consolidated financial position, results of operations or cash flows.

The Company has employment agreements with certain employees, the terms of which expire at various dates between 2006 and 2010. The agreements generally provide for base salary and bonus levels and include non-compete provisions. The aggregate commitment for salaries under these agreements at September 30, 2005 was approximately \$13,050.

13. ENVIRONMENTAL MATTERS:

The Company's operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require the Company to obtain and operate in compliance with conditions of permits and other government authorizations. As such, the Company has developed environmental, health and safety policies and procedures that include the proper handling, storage and disposal of hazardous materials.

The Company is party to various environmental matters. These include obligations to investigate and mitigate the effects on the environment of the disposal of certain materials at various operating and non-operating sites. The Company is currently performing environmental assessments and remediation at these sites, as appropriate. In addition, prior to its acquisition, The York Group, Inc. ("York") was identified, along with others, by the Environmental Protection Agency as a potentially responsible party for remediation of a landfill site in York, Pennsylvania. At this time, the Company has not been joined in any lawsuit or administrative order related to the site or its clean-up.

At September 30, 2005, an accrual of \$10,467 has been recorded for environmental remediation (of which \$860 has been classified in other current liabilities), representing management's best estimate of the probable and reasonably estimable costs of the Company's known remediation obligations. The accrual, which reflects previously established reserves assumed with the acquisition of York and additional reserves recorded as a purchase accounting adjustment, does not consider the effects of inflation and anticipated expenditures are not discounted to their present value. While final resolution of these contingencies could result in costs different than current accruals, management believes the ultimate outcome will not have a significant effect on the Company's consolidated results of operations or financial position.

(Dollar amounts in thousands, except per share data)

14. SUPPLEMENTAL CASH FLOW INFORMATION:

Changes in working capital items as presented in the Consolidated Statement of Cash Flows consisted of the following:

	2005	2004	2003
Current assets:			
Accounts receivable	\$(13,489)	\$ (2,367)	\$ 3,989
Inventories	(9,886)	(3,959)	(2,624)
Other current assets	549	(716)	(1,414)
	(22,826)	(7,042)	(49)
Current liabilities:			
Trade accounts payable	7,529	75	(61)
Accrued compensation	1,584	3,430	1,626
Accrued income taxes	(1,378)	10,352	(3,226)
Customer prepayments	722	(2,928)	(187)
Accrued rebates	—	—	(8,391)
Accrued shutdown	—	(693)	(2,670)
Other current liabilities	(5,304)	(1,258)	498
	3,153	8,978	(12,411)
Net change	\$(19,673)	\$1,936	\$(12,460)

15. SEGMENT INFORMATION:

The Company's products and operations consist of two principal businesses that are comprised of three operating segments each, as described under Nature of Operations (Note 1): Memorialization Products (Bronze, Casket, Cremation) and Brand Solutions (Graphics Imaging, Marking Products and, as of July 19, 2004, Merchandising Solutions (see Note 16)). Management evaluates segment performance based on operating profit (before income taxes) and does not allocate non-operating items such as investment income, interest expense, other income (deductions), net and minority interest.

The accounting policies of the segments are the same as those described in Summary of Significant Accounting Policies (Note 2). Intersegment sales are accounted for at negotiated prices. Operating profit is total revenue less operating expenses. Segment assets include those assets that are used in the Company's operations within each segment. Assets classified under "Other" principally consist of cash and cash equivalents, investments, deferred income taxes and corporate headquarters' assets. Long-lived assets include property, plant and equipment (net of accumulated depreciation), goodwill, and other intangible assets (net of accumulated amortization).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

Information about the Company's segments follows:

	MEMORIALIZATION			BRAND SOLUTIONS				Consolidated
	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Other	
Sales to external customers:								
2005	\$205,675	\$135,512	\$21,497	\$143,159	\$45,701	\$88,278	\$ —	\$639,822
2004	197,377	116,588	22,476	113,226	37,990	21,144	—	508,801
2003	186,950	120,398	20,189	99,065	32,263	—	—	458,865
Intersegment sales:								
2005	175	437	423	—	37	224	—	1,296
2004	178	438	276	4	35	—	—	931
2003	79	307	194	3	42	—	—	625
Depreciation and amortization:								
2005	4,644	4,456	237	6,634	475	2,677	770	19,893
2004	4,797	4,150	242	4,917	416	406	700	15,628
2003	4,815	4,209	213	4,712	479	—	444	14,872
Operating profit:								
2005	60,856	13,131	912	15,520	7,587	3,281	—	101,287
2004	54,337	14,585	1,475	19,287	6,539	1,571	—	97,794
2003	50,433	12,740	1,242	11,562	4,107	—	—	80,084
Total assets:								
2005	148,408	222,270	11,128	150,687	29,924	58,173	41,477	662,067
2004	147,816	102,902	11,725	141,282	26,452	48,948	51,417	530,542
2003	139,543	109,106	11,153	92,135	20,431	—	67,814	440,182
Capital expenditures:								
2005	2,129	7,730	29	8,119	638	2,207	7,214	28,066
2004	3,510	1,109	86	3,903	567	858	370	10,403
2003	3,509	1,667	153	3,683	115	—	153	9,280

Information about the Company's operations by geographic area follows:

	United States	Mexico	Canada	Australia	Europe	Consolidated
Sales to external customers:						
2005	\$474,466	\$ —	\$11,319	\$8,106	\$145,931	\$639,822
2004	381,134	—	9,495	7,003	111,169	508,801
2003	357,354	—	8,568	5,566	87,377	458,865
Long-lived assets:						
2005	270,540	6,759	2,482	2,634	113,521	395,936
2004	190,336	—	2,345	2,574	98,755	294,010
2003	174,773	—	2,244	3,034	57,334	237,385

(Dollar amounts in thousands, except per share data)

16. ACQUISITIONS:

In September 2005, the Company acquired an additional 30% interest in S+T Gesellschaft für Reprotechnik GmbH ("S+T") for a price of 6.9 million Euros (\$8,300), which was paid in October 2005. The Company had acquired a 50% interest in S+T in 1998.

In July 2005, the Company acquired Milso, a leading manufacturer and marketer of caskets in the United States. Milso, headquartered in Brooklyn, New York, has manufacturing operations in Richmond, Indiana and maintains distribution centers throughout the Northeast, Mid-Atlantic, Midwest and Southwest regions of the United States. The transaction was structured as an asset purchase, at an initial purchase price of approximately \$95,000. The transaction was also structured to include potential additional consideration of \$7,500 contingent on the fiscal 2006 performance of the acquired operations. The Company expects to account for this additional consideration as additional purchase price. The acquisition was intended to expand Matthews' products and services in the United States casket market.

Acquired intangible assets of Milso include trade names with an assigned value of \$5,800, which are not subject to amortization. Intangible assets also include customer relationships with an assigned value of \$10,400 to be amortized over their estimated useful lives of 20 years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Milso at the date of acquisition.

Cash	\$ 197
Trade receivables	13,536
Inventories	18,404
Property, plant and equipment	6,909
Intangible assets	16,200
Goodwill and other assets	51,897
Total assets acquired	107,143
Trade accounts payable	9,467
Debt	1,207
Other liabilities	1,064
Total liabilities assumed	11,738
Net assets acquired	\$ 95,405

In June 2005, the Company paid additional consideration of 5.0 million Euros (\$6,000) to the minority owner of Rudolf Reproflex GmbH ("Rudolf") under the terms of the original acquisition agreement. The Company had acquired a 75% interest in Rudolf in 2001.

In August 2004, the Company acquired The InTouch Group Limited ("InTouch"), a leading provider of reprographic services to the packaging industry in the United Kingdom. InTouch is headquartered in Leeds, England and has operations in London, Portsmouth, Manchester and Boston, Massachusetts. The transaction was structured as a stock purchase, at a cost of approximately \$39,000. The acquisition was intended to further the Company's position as a provider of reprographic services to the European packaging industry.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

In July 2004, the Company acquired The Cloverleaf Group, Inc. ("Cloverleaf"), a provider of merchandising solutions. Cloverleaf was formed by the merger of iDL, Inc., a merchandising solutions company headquartered near Pittsburgh, Pennsylvania, and Big Red Rooster, a marketing and design services organization located in Columbus, Ohio. The transaction was structured as an asset purchase, at a cost of approximately \$34,000. The transaction was structured to include potential additional consideration during the next six years contingent on the future growth in value of the acquired operations. The Company expects to account for this additional consideration as additional purchase price. The acquisition was designed to expand the Company's products and services into the merchandising solutions market.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Cloverleaf and InTouch at their respective dates of acquisition.

	Cloverleaf	InTouch
Cash	\$ 295	\$ 1,151
Trade receivables	14,618	7,177
Inventories	10,669	690
Property, plant and equipment	5,450	2,921
Intangible assets	8,000	11,681
Goodwill and other assets	8,869	20,919
Total assets acquired	47,901	44,539
Trade accounts payable	4,743	1,313
Customer prepayments	3,002	—
Other liabilities	5,903	3,544
Total liabilities assumed	13,648	4,857
Net assets acquired	\$34,253	\$39,682

In July 2004, the Company acquired Holjeron Corporation, an industrial controls manufacturer located near Portland, Oregon. The acquisition was structured as a stock purchase, at an initial cost of \$1,680. In February 2005, additional consideration of \$3,070 was paid in accordance with the purchase agreement. The acquisition was a part of Matthews' strategy to increase its presence in the marking products industry.

In August 2003, Matthews acquired Reproservice Eurodigital GmbH München ("Reproservice Munich"), a German graphics and flexographic printing plate manufacturer located in Munich, Germany. The transaction was structured as a stock purchase, at an acquisition price of 4.1 million Euros (\$4,800). The combination of Matthews and Reproservice Munich was an important part of the Matthews strategy to increase its European presence in the graphics industry.

The following unaudited pro forma information presents a summary of the consolidated results of Matthews combined with Milso, Cloverleaf and InTouch as if the acquisitions had occurred on October 1, 2003:

	2005	2004
Sales	\$707,222	\$680,047
Income before taxes	101,608	96,950
Net income	63,367	59,327
Earnings per share	\$1.95	\$1.81

(Dollar amounts in thousands, except per share data)

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as interest expense on acquisition debt. The pro forma information does not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

Matthews has accounted for these acquisitions using the purchase method and, accordingly, recorded the acquired assets and liabilities at their estimated fair values at the acquisition dates. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill. The acquired goodwill in the InTouch and Reproservice Munich acquisitions was not deductible for tax purposes.

17. SPECIAL ITEMS:

In July 2003, the Company sold its Graphics Imaging segment facility (which was closed in October 2002) in Southern California for \$3,200. The transaction resulted in a pre-tax gain of \$2,600, which was recorded in Special Items on the Consolidated Statement of Income. In addition, Special Items for fiscal 2003 included a pre-tax charge of \$3,600 for goodwill impairment related to O.N.E. Color Communications, L.L.C. ("O.N.E.") (see Note 18).

18. GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill is not amortized but is subject to annual review for impairment. In general, when the carrying value of a reporting unit exceeds its implied fair value, an impairment loss must be recognized. For purposes of testing for impairment the Company uses a combination of valuation techniques, including discounted cash flows. Intangible assets are amortized over their estimated useful lives unless such lives are considered to be indefinite. A significant decline in cash flows generated from these assets may result in a write-down of the carrying values of the related assets.

The Company performed its annual impairment reviews in the second quarters of fiscal 2005 and fiscal 2004 and determined that no adjustments to the carrying values of goodwill or other indefinite lived intangibles were necessary.

In fiscal 2003, the Company performed its annual impairment review in the second quarter and determined that no additional adjustments to the carrying values of goodwill were necessary at that time. However, due to the Company's purchase of the remaining 50% interest in O.N.E. and its declining operating results during the second half of fiscal 2003, the Company determined that an impairment review of O.N.E., a reporting unit within the Graphics Imaging segment, was necessary as of September 30, 2003. Based on this assessment, the Company recorded a pre-tax charge of \$3,600 in the fourth quarter of fiscal 2003, for goodwill impairment. At September 30, 2003, the Company reorganized the operations of O.N.E. and integrated it with the Graphics Imaging domestic reporting unit for purposes of the annual impairment assessment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands, except per share data)

Changes to goodwill, net of accumulated amortization, during the years ended September 30, 2005 and 2004, follow.

	Bronze	Casket	Cremation	Graphics Imaging	Marking Products	Merchandising Solutions	Consolidated
Balance at September 30, 2003	\$72,122	\$40,706	\$6,536	\$35,161	\$ 165	\$ —	\$154,690
Additions during period	—	—	—	21,458	1,331	8,019	30,808
Translation and other adjustments	1,519	—	—	1,999	—	—	3,518
Balance at September 30, 2004	73,641	40,706	6,536	58,618	1,496	8,019	189,016
Additions during period	—	51,271	—	16,886	3,717	1,928	73,802
Translation and other adjustments	(612)	—	—	(1,534)	—	—	(2,146)
Balance at September 30, 2005	\$73,029	\$91,977	\$6,536	\$73,970	\$5,213	\$9,947	\$260,672

The additions to goodwill during fiscal 2005 primarily related to the acquisition of Milso (Casket), additional ownership acquired in S&T and Rudolf (Graphics Imaging), and additional consideration paid to complete the acquisition of Holjeron (Marking Products) (see Note 16). The additions to goodwill during fiscal 2004 related primarily to the acquisitions of Cloverleaf (Merchandising Solutions), InTouch (Graphics Imaging) and Holjeron.

The following tables summarize the carrying amounts and related accumulated amortization for intangible assets as of September 30, 2005 and 2004, respectively.

	Carrying Amount	Accumulated Amortization	Net
September 30, 2005:			
Trade names	\$23,585	\$ — *	\$23,585
Customer relationships	20,778	(1,517)	19,261
Copyrights/patents/other	4,952	(1,401)	3,551
	\$49,315	\$(2,918)	\$46,397
September 30, 2004:			
Trade names	\$17,964	\$ — *	\$17,964
Customer relationships	10,427	(742)	9,685
Copyrights/patents/other	5,024	(393)	4,631
	\$33,415	\$(1,135)	\$32,280

*Not subject to amortization

The additions to intangible assets during fiscal 2005 related to the acquisition of Milso (see Note 16).

Amortization expense on intangible assets was \$1,826, \$498 and \$348 in 2005, 2004 and 2003, respectively. Amortization expense is estimated to be \$2,150 in 2006, \$1,800 in 2007, \$1,800 in 2008, \$1,750 in 2009 and \$1,300 in 2010.

SUPPLEMENTARY FINANCIAL INFORMATION

Selected Quarterly Financial Data (Unaudited):

The following table sets forth certain items included in the Company's unaudited consolidated financial statements for each quarter of fiscal 2005 and fiscal 2004.

	Quarter Ended				Year Ended
	December 31	March 31	June 30	September 30	September 30

(Dollar amounts in thousands, except per share data)

FISCAL YEAR 2005:

Sales	\$148,706	\$156,243	\$158,983	\$175,890	\$639,822
Gross profit	48,419	54,386	57,120	63,150	223,075
Operating profit	20,119	26,385	27,477	27,306	101,287
Net income	12,725	15,263	16,154	15,682	59,824
Earnings per share	.39	.47	.50	.48	1.84

FISCAL YEAR 2004:

Sales	\$116,902	\$124,987	\$120,635	\$146,277	\$508,801
Gross profit	42,623	47,632	48,454	55,045	193,754
Operating profit	19,853	24,166	25,212	28,563	97,794
Net income	11,383	13,801	14,380	16,631	56,195
Earnings per share	.35	.42	.44	.51	1.72

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE**

To the Shareholders and Board of Directors of
Matthews International Corporation:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated December 2, 2005 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 8 of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
December 2, 2005

FINANCIAL STATEMENT SCHEDULE

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Additions		Deductions ²	Balance at end of period
		Charged to expense	Charged to other accounts ¹		
Allowance for Doubtful Accounts:					
Fiscal Year Ended:					
September 30, 2005	\$7,717	\$ 398	\$3,209	\$ (777)	\$10,547
September 30, 2004	6,013	2,278	425	(999)	7,717
September 30, 2003	8,289	827	(817)	(2,286)	6,013

¹ Amount comprised principally of acquisitions and purchase accounting adjustments in connection with acquisitions.

² Amounts determined not to be collectible, net of recoveries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in accountants or disagreements on accounting or financial disclosure between the Company and PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, for the fiscal years ended September 30, 2005, 2004 and 2003.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

Based on their evaluation at the end of the period covered by this Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Management's Report on Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting is included in Management's Report to Shareholders in Item 8 of this Annual Report on Form 10-K.

(c) Attestation Report of the Registered Public Accounting Firm

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

(d) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS, OFFICERS and EXECUTIVE MANAGEMENT OF THE REGISTRANT.

In addition to the information reported in Part I of this Form 10-K, under the caption "Officers and Executive Management of the Registrant", the information required by this item as to the directors of the Company is hereby incorporated by reference from the information appearing under the captions "Proposal No. 1 – Elections of Directors", "General Information Regarding Corporate Governance – Audit Committee" and "Compliance with Section 16(a) of the Exchange Act" in the Company's definitive proxy statement, which involves the election of the directors and is to be filed with the Securities and Exchange Commission pursuant to the Exchange Act of 1934, as amended, within 120 days of the end of the Company's fiscal year ended September 30, 2005.

The Company's Code of Ethics Applicable to Executive Management is set forth in Exhibit 14.1 hereto.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item as to the compensation of directors and executive management of the Company is hereby incorporated by reference from the information appearing under the captions "Compensation of Executive Management and Retirement Benefits" and "Compensation of Directors" in the Company's definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2005. The information contained in the "Report of the Compensation Committee" and the "Comparison of Five Year Cumulative Return (Performance Graph)" is specifically not incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item as to the ownership by management and others of securities of the Company is hereby incorporated by reference from the information appearing under the caption "Stock Ownership" in the Company's definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2005.

Equity Compensation Plans:

The Company has a stock incentive plan that provides for grants of incentive stock options, non-statutory stock options and restricted share awards in an aggregate number not to exceed 15% of the outstanding shares of the Company's common stock. The option price for each stock option that may be granted under the plan may not be less than the fair market value of the Company's common stock on the date of grant. Outstanding stock options are exercisable in various share amounts based on the attainment of certain market value levels of Class A Common Stock but, in the absence of such events, options granted in fiscal 2005 and prior are exercisable in full for a one-week period beginning five years from the date of grant. Options granted in fiscal 2006 will not allow for such one-week exercise period. In addition, options generally vest in one-third increments after three, four and five years, respectively, from the grant date (but, in any event, not until the attainment of the certain market value levels described above). The options expire on the earlier of ten years from the date of grant, upon employment termination, or within specified time limits following voluntary employment termination (with the consent of the Company), retirement or death.

Under the Company's Director Fee Plan, directors who are not also officers of the Company each receive, as an annual retainer fee, either cash or shares of the Company's Class A Common Stock equivalent to \$30,000. Where the annual retainer fee is provided in shares, each director may elect to be paid these shares on a current basis or have such shares credited to a deferred stock account as phantom stock, with such shares to be paid to the director subsequent to leaving the Board. Directors may also elect to receive the common stock equivalent of meeting fees credited to a deferred stock account. The value of deferred shares is recorded in other liabilities. Shares deferred under the Director Fee Plan at September 30, 2005, 2004 and 2003 were 51,313, 50,064 and 58,900, respectively. Additionally, beginning in fiscal 2005, directors who are not also officers of the Company each receive an annual stock-based grant (non-statutory stock options, stock appreciation rights and/or restricted shares) with a value of \$40,000. During the year ended September 30, 2005, such directors were granted a total of 17,500 stock options, all of which were outstanding and unvested at September 30, 2005. A total of 500,000 shares have been authorized to be issued under the Director Fee Plan.

The following table provides information about grants under the Company's equity compensation plans as of September 30, 2005:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
Stock Incentive Plan	2,090,607	\$25.50	2,713,397 ¹
Employee Stock Purchase Plan	—	—	1,770,048 ²
Director Fee Plan	68,813	34.63	602,646 ³
Equity compensation plans not approved by security holders	None	None	None
Total	2,159,420	\$25.57	5,086,091

¹ The aggregate number of shares available for grant under such plan cannot exceed 15% of the outstanding shares of the Company's common stock and includes up to 1,000,000 shares that can be issued as restricted stock under the Company's 1992 Stock Incentive Plan.

² Shares under the Employee Stock Purchase Plan (the "Plan") are purchased in the open market by employees at the fair market value of the Company's stock. The Company provides a matching contribution of 10% of such purchases subject to certain limitations under the Plan. As the Plan is an open market purchase plan, it does not have a dilutive effect.

³ Shares of restricted stock may be issued under the Director Fee Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item as to certain relationships and transactions with management and other related parties of the Company is hereby incorporated by reference from the information appearing under the captions "Proposal No. 1 – Election of Directors" and "Certain Transactions" in the Company's definitive proxy statement, which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act, within 120 days of the end of the Company's fiscal year ended September 30, 2005.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item as to the fees billed and the services provided by the principal accounting firm of the Company is hereby incorporated by reference from the information appearing under the caption "Relationship with Independent Registered Public Accounting Firm" in the Company's definitive proxy statement, which involves the election of directors and is to be filed with the Commission pursuant to the Exchange Act within 120 days of the end of the Company's fiscal year ended September 30, 2005.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements:

The following items are included in Part II, Item 8:

	Pages
Management's Report to Shareholders	33
Report of Independent Registered Public Accounting Firm	34-35
Consolidated Balance Sheets	36-37
Consolidated Statements of Income	38
Consolidated Statements of Shareholders' Equity	39
Consolidated Statements of Cash Flows	40
Notes to Consolidated Financial Statements	41-61
Supplementary Financial Information	62

2. Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts and the related Report of Independent Registered Public Accounting Firm are included on pages 63 and 64 in Part II, Item 8 of this Annual Report on Form 10-K.

3. Exhibits Filed:

The index to exhibits is on pages 70-72.

(b) Reports on Form 8-K:

On July 14, 2005 Matthews filed a Current Report on Form 8-K under Item 2 in connection with a press release announcing the completion of the acquisition of Milso Industries.

On July 21, 2005 Matthews filed a Current Report on Form 8-K under Item 2 in connection with a press release announcing its earnings for the third fiscal quarter of 2005.

On September 1, 2005 Matthews filed a Current Report on Form 8-K under Item 5 in connection with the announcement of new executive appointments.

On September 21, 2005 Matthews filed a Current Report on Form 8-K under Item 7 in connection with a press release announcing the possible change in ownership of its largest independent casket distributor.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 14, 2005.

MATTHEWS INTERNATIONAL CORPORATION

(Registrant)

/s/ David M. Kelly

By David M. Kelly, Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on December 14, 2005:

/s/ David M. Kelly

David M. Kelly
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

/s/ Steven F. Nicola

Steven F. Nicola
Chief Financial Officer, Secretary
and Treasurer (Principal Financial
and Accounting Officer)

/s/ David J. DeCarlo

David J. DeCarlo, Director

/s/ John P. O'Leary, Jr.

John P. O'Leary, Jr., Director

/s/ Robert J. Kavanaugh

Robert J. Kavanaugh, Director

/s/ William J. Stallkamp

William J. Stallkamp, Director

/s/ Glenn R. Mahone

Glenn R. Mahone, Director

/s/ John D. Turner

John D. Turner, Director

/s/ Joseph C. Bartolacci

Joseph C. Bartolacci, Director

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES

EXHIBITS

INDEX

The following Exhibits to this report are filed herewith or, if marked with an asterisk (*), are incorporated by reference. Exhibits marked with an "a" represent a management contract or compensatory plan, contract or arrangement required to be filed by Item 601(b)(10)(iii) of Regulation S-K.

Exhibit No.	Description	Prior Filing or Sequential Page Numbers Herein
3.1	Restated Articles of Incorporation*	Exhibit Number 3.1 to Form 10-K for the year ended September 30, 1994
3.2	Restated By-laws*	Exhibit Number 3.1 to Form 8-K dated July 22, 1999
4.1 a	Form of Revised Option Agreement of Repurchase (effective October 1, 1993)*	Exhibit Number 4.5 to Form 10-K for the year ended September 30, 1993
4.2	Form of Share Certificate for Class A Common Stock*	Exhibit Number 4.9 to Form 10-K for the year ended September 30, 1994
10.1	Revolving Credit Facility*	Exhibit Number 10.1 to Form 10-K for the year ended September 30, 2001
10.2	First Amendment to Revolving Credit Facility*	Exhibit Number 10.1 to Form 10-Q for the quarter ended March 31, 2004
10.3	Second Amendment to Revolving Credit Facility*	Exhibit Number 10.1 to Form 10-Q for the quarter ended December 31, 2004
10.4 a	Supplemental Retirement Plan*	Exhibit Number 10.8 to Form 10-K for the year ended September 30, 1988
10.5 a	1992 Stock Incentive Plan (as amended through November 15, 2005)*	Filed Herewith
10.6 a	Form of Stock Option Agreement*	Exhibit Number 10.1 to Form 10-Q for the quarter ended December 31, 1994
10.7 a	1994 Director Fee Plan (as amended through November 15, 2005)*	Filed Herewith

Exhibit No.	Description	Prior Filing or Sequential Page Numbers Herein
10.8 a	1994 Employee Stock Purchase Plan*	Exhibit Number 10.2 to Form 10-Q for the quarter ended March 31, 1995
10.9 a	Key Employee Employment Agreement by and between The York Group, Inc. and Harry Pontone dated May 28, 2005 and effective July 11, 2005*	Exhibit Number 10.2 to Form 8-K dated July 14, 2005
10.10	Agreement and Plan of Merger By and Among Matthews International Corporation, Empire Merger Corp., and The York Group, Inc., dated as of May 24, 2001*	Exhibit Number 10.3 to Form 8-K dated May 24, 2001
10.11	Asset Purchase Agreement between I.D.L. Incorporated and Hugh Andrew, L.P. and Big Red Rooster, Inc. and The Cloverleaf Group, L.P. and iDL shareholders and the BRR shareholders and The Cloverleaf Group, Inc. and Matthews International Corporation dated as of July 19, 2004*	Exhibit Number 10.1 to Form 10-Q for the quarter ended June 30, 2004
10.12	Share Sale and Purchase Agreement between Graeme Phillip King and Brian Ernest Tottman and Robert Greig Watkins and Geoffrey William Roberts and Helen M. King and Josephine Tottman and Sally R. Watkins and Jennifer R. Roberts and Matthews Holding Company (U.K.) Limited.	Exhibit Number 10.11 to Form 10-K for the year ended September 30, 2004
10.13	Asset Purchase Agreement by and among The York Group, Inc., Midnight Acquisition Corporation, Milso Industries, Inc., Milso Industries, LLC, SBC Holding Corporation, the Shareholders identified therein and Matthews International Corporation	Exhibit Number 10.1 to Form 8-K dated on July 14, 2005
14.1	Form of Code of Ethics Applicable to Executive Management	Exhibit Number 14.1 to Form 10-K for the year ended September 30, 2004
21	Subsidiaries of the Registrant	Filed Herewith
23	Consent of Independent Registered Public Accounting Firm	Filed Herewith
31.1	Certification of Principal Executive Officer for David M. Kelly	Filed Herewith

EXHIBITS INDEX (continued)

Exhibit No.	Description	Prior Filing or Sequential Page Numbers Herein
31.2	Certification of Principal Financial Officer for Steven F. Nicola	Filed Herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David M. Kelly	Filed Herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Steven F. Nicola	Filed Herewith

Copies of any Exhibits will be furnished to shareholders upon written request. Requests should be directed to Mr. Steven F. Nicola, Chief Financial Officer, Secretary and Treasurer of the Registrant.

CORPORATE OFFICE

Two NorthShore Center
Pittsburgh, Pennsylvania 15212-5851
Phone: (412) 442-8200 • Fax: (412) 442-8290
E-mail: investorrelations@matw.com
Company website: www.matw.com

ANNUAL MEETING

Thursday, February 16, 2006 ~ 6:00 p.m.
Sheraton Station Square Hotel
300 West Station Square Drive
Pittsburgh, Pennsylvania 15219

FORM 10-K

A copy of the Matthews International Corporation Annual Report to the Securities and Exchange Commission on Form 10-K is also available to shareholders on the Company's website.

TRANSFER AGENT, REGISTRAR & DIVIDEND DISBURSEMENT AGENT

Questions regarding stock certificates, replacement of lost certificates, address changes, account consolidation, and lost or misplaced dividends should be addressed to:

Computershare Investor Services LLC
P.O. Box 2388
Chicago, Illinois 60690-2388
Phone: (888) 294-8217 • Fax: (312) 601-4332
Internet: www.computershare.com

INQUIRIES

Matthews International Corporation welcomes and encourages questions and comments from its shareholders, potential investors, financial professionals, institutional investors and security analysts. Interested parties should contact Steven F. Nicola, Chief Financial Officer, Secretary and Treasurer, by mail or telephone at the Company's Corporate Office.

MATTHEWS INTERNATIONAL CORPORATION & SUBSIDIARIES

DIRECTORS

David M. Kelly
Chairman of the Board and Chief Executive Officer

Joseph C. Bartolacci
President and Chief Operating Officer

David J. DeCarlo
Vice Chairman

Robert J. Kavanaugh
Retired Partner, Arthur Andersen LLP

Glenn R. Mahone
Partner, Reed Smith LLP

John P. O'Leary, Jr.
Retired Senior Vice President, SCA North America

William J. Stallkamp
Retired Vice Chairman, Mellon Financial Corporation

John D. Turner
Retired Chairman and Chief Executive Officer, Copperweld Corporation

OFFICERS & EXECUTIVE MANAGEMENT

David M. Kelly
Chairman of the Board and
Chief Executive Officer

Joseph C. Bartolacci
President and
Chief Operating Officer

David F. Beck
Controller

Martin J. Beck
President, Brand Solutions

David J. DeCarlo
Vice Chairman

Brian J. Dunn
President, Marking
Products Division

David H. Hewitt
President, Bronze Division

Lawrence W. Keeley, Jr.
President, Packaging
Graphics Division

Ralph W. Murray
Chairman of the
Board of Advisors,
The Cloverleaf Group, Inc.

Steven F. Nicola
Chief Financial Officer,
Secretary and Treasurer

Harry A. Pontone
President, Casket Division

Paul F. Rahill
President, Cremation Division

Franz J. Schwarz
Managing Director, Matthews
International GmbH



Matthews
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